Noel, Dunia

From: Noel, Dunia
Sent: Thursday, June 07, 2012 10:54 AM
To: 'Phyllis Brown'
Subject: RE: El Camino Hospital funding question

Phyllis Brown,
Thank you for your inquiry. The boundaries of the El Camino Hospital District do not include the Town of Los Gatos. Therefore, no portion of the property taxes collected from property owners in Los Gatos goes to the El Camino Hospital District. The District's boundary includes Los Altos, most of Los Altos Hills, Mountain View, a large part of Sunnyvale, and a very small portion of Cupertino. The District receives a portion of the property tax collected from only those areas. Furthermore, voters in these areas have also approved several bonds to help with seismic improvements and the rebuilding of the hospital in Mountain View. LAFCO's Draft Audit and Service Review of the El Camino Hospital District is available on the LAFCO Website for public review and comment at the following:
http://www.santaclara.lafco.ca.gov/agenda/Full_Packets/2012Packets/2012May30/DraftReport-ECHDAuditServiceReview.pdf
Additionally, LAFCO's Consultant has prepared a short PowerPoint Presentation highlighting their findings, conclusions, and recommendations which you can access at the following link:
http://www.santaclara.lafco.ca.gov/agenda/Full_Packets/2012Packets/2012May30/ECHD_SRAudit_PowerPoint.pdf. If I can be of further assistance, please don't hesitate to contact me.

Dunia Noel, Analyst
LAFCO of Santa Clara County
70 West Hedding Street
11th Floor, East Wing
San Jose CA 95110
Ph: (408) 299-5148   Fax: (408) 295-1613 www.santaclara.lafco.ca.gov

-----Original Message-----
From: Phyllis Brown [mailto:chocaholic48@live.com]
Sent: Thursday, June 07, 2012 10:24 AM
To: Noel, Dunia
Subject: El Camino Hospital funding question

Good morning,

I apologize if you aren't the person I should be writing to; but, please forward this along if that's the case.

I live in Los Altos, and so pay a certain portion of my local taxes to the El Camino Hospital district.

Noel, Dunia

From: Phyllis Brown [chocaholic48@live.com]
Sent: Thursday, June 07, 2012 10:24 AM
To: Noel, Dunia
Subject: El Camino Hospital funding question

Good morning,

I apologize if you aren't the person I should be writing to; but, please forward this along if that's the case.

I live in Los Altos, and so pay a certain portion of my local taxes to the El Camino Hospital district.

My question: do the people in the Los Gatos area hospital also now pay a certain portion of their local taxes to the district?

Thank you,

Phyllis Brown
chocaholic48@live.com

Noel, Dunia

From: Maurice Ghysels [mauriceghysels@yahoo.com]
Sent: Monday, June 11, 2012 8:52 PM
To: Pete.Constant@sanjoseca.go; Wasserman, Mike; Margaret.Abe-Koga@mountainview.gov; Kniss, Liz; Susan@svwilsonlaw.com; Sam.Liccardo@sanjoseca.gov; Al.Pinheiro@ci.gilroy.ca.us; Shirakawa, George; TerryT1011@aol.com; Noel, Dunia
Cc: Bill Krepick; Bob Adams; Bob Grimm; Deborah Kilpatrick; Dr.Sari; Stetson, Elinor; Fred Seddiqui; Harry Taxin; judy vandyck; Maurice Ghysels; Mike Kasperzak; Miryam Castaneda; Phyllis Dorricott; Sally Meadows; Ted Biagini; MD; MD; Darrell Boyle; David Cohen; Eric Pifer; Eric Raff; John Hopkins; John Tighe; Kathleen King; Katie Anderson; Michael Hensley; Michael Kane; Mishy Balaban; MD; Pat Wolfram; Phil Boyce; MD; William Hobbs
Subject: ,

Dear Members of the Local Agency Formation Commission (LAFCo) of Santa Clara County:

As the past Superintendent of Mountain View Whisman School District and a current member of El Camino Hospital Community Advisory Council, I strongly disagree with the recommendations to have the District residents give up control of the Hospital and to potentially dissolve the District, particularly given that the report acknowledges strong, positive results achieved under its current structure.

Specifically, the District's Community Benefits program would no longer be available to District residents if the District is dissolved. El Camino Hospital provides tremendous support in community health, the greatest amount of care I have witnessed in my career as an educational leader, which I remain, along with a champion for the District. Our community's children continue to greatly benefit from the local control of the District. El Camino Hospital's deeply committed and caring Board and staff have been instrumental in understanding and meeting the health needs of our community.

If you would like more information, I would be happy to share the details of how El Camino Hospital supports our community. Please contact me at (650) 863-6295.

Sincerely,

Maurice Ghysels, Ed.D.

Noel, Dunia

From: billk [bkrepick@sbcglobal.net]
Sent: Tuesday, June 19, 2012 10:16 AM
To: Noel, Dunia
Cc: Pete.Constant@sanjoseca.gov; Wasserman, Mike; Margaret.Abe-Koga@mountainview.gov; Susan@svwilsonlaw.com; Sam.Liccardo@sanjoseca.gov; Shirakawa, George; TerryT1011 @aol.com; Kniss, Liz; Cat.Tucker@ci.gilroy.ca.us; Palacherla, Neelima; phil.spiro@gmail.com; 'Elaine Chow'
Subject: Input on LAFCO Audit Report on El Camino Hospital

To: LAFCO Commissioners

I wanted to give you feedback re your recent audit report. I live in Mountain View and am a taxpayer in the special El Camino Hospital tax district. I have been following the activities of the Hospital Board for many years. I led a taxpayer petition (signed by over 100 residents) in opposition to the Los Gatos Hospital acquisition. I have served on the Financial Committee and the Community Advisory Council for El Camino Hospital.

I think your audit report was very thorough and very fair. First and foremost, I think your conclusion that the hospital has served the community well and is a top ranked hospital in all aspects of healthcare delivery is widely supported by the community. We are all very proud of El Camino Hospital. I think your conclusions that the District Board and the Operating Board lack transparency in financial reporting is right on. I also think your observations are correct that the hospital has not adequately or properly targeted community benefit programs for local low income and other citizens of the special tax district.

I think the ECH District Board has taken your comments seriously and through its attempts to expand and broaden community participation in the hospital committees and the Operating Board has demonstrated their resolve to change. However, I am troubled by the District Board's attempts to solicit letters of support from the community with a campaign based on unfounded fear and threats which suggest that LAFCO has already decided to dissolve the special tax district and that would result in the end of low income free clinic care. That is a false threat which the hospital and the District Board should not be making.

As a non-profit hospital – whether partially funded by a special tax district or not, ECH has an obligation to the community to provide charity care to its citizens in return for being exempt from property and sales taxes. <u>Your audit report shows that ECH receives more property tax revenue than all but one district in the State!</u> Senator Charles Grassley has worked for many years to ensure that non-profit hospitals return a certain percentage of their revenues back to the communities in which they operate in order to retain their tax exempt status. I believe that the Catholic Charity Hospitals have developed an IRS reporting guideline that clearly outlines the activities that are included in charity care – and I believe those activities do not include Medicare or Medi-Cal writeoffs for uncompensated costs.

Your audit report shows that after Medicare and Medi-Cal uncompensated charity care are subtracted, the resultant 'other community benefits' care amounts to $7.6 million/year for ECH, or 1.3% of operating expenses. For other California non-profit hospitals which have no special tax district revenues, the comparable figures range between 1.2% to 2.4%. El Camino has the good fortune to receive $5 million in special district tax revenues to support local community benefits. The other hospitals do not have these extraordinary tax revenues to support their local community benefit programs and yet they contribute proportionally more to community benefit programs than does ECH! <u>Given these community benefit calculations, it appears to me that ECH has actually shortchanged the community by some $5 million/year compared with other non-profit hospitals.</u>

So, my bottom line is that you have done a service to the taxpayers by putting the ECH District Board on notice that unless they make improvements in transparency, governance, and earmarking more special tax district revenues specifically to benefit the local community – LAFCO will recommend that the special tax district be resolved. I would urge you to go a step further and assess whether ECH has the obligation as a community funded non-profit hospital to demonstrate that its annual local community charity care benefits are at least 1.3% of operating expenses PLUS an additional $5 million/year from the special district tax revenues.

Sincerely
Bill Krepick
Mountain View

From: Noel, Dunia [mailto:Dunia.Noel@ceo.sccgov.org]
Sent: Friday, June 15, 2012 4:32 PM
To: billk
Cc: Pete.Constant@sanjoseca.gov; Wasserman, Mike; Margaret.Abe-Koga@mountainview.gov; Susan@svwilsonlaw.com; Sam.Liccardo@sanjoseca.gov; Shirakawa, George; TerryT1011@aol.com; Kniss, Liz; Cat.Tucker@ci.gilroy.ca.us; Palacherla, Neelima
Subject: RE: El Camino Hospital tax district - confusion over LAFCO audit report?

Mr. Krepick:
Thank you for your inquiry. First we would like to clarify that neither LAFCO of Santa Clara County nor the Audit and Service Review of El Camino Hospital District has recommended the dissolution of the El Camino Hospital District at this time. Please see below for LAFCO staff's response to your specific questions. If you need further assistance, please feel free to contact me at dunia.noel@ceo.sccgov.org OR (408) 299-5148.

Question #1: If the ECH special tax district is dissolved – does that mean that the ~$16 million in annual taxpayer assessments is reduced to zero – or does the tax revenue go to the County for other uses? And if the special tax continues to be collected, who determines the distribution?

Response: Please see LAFCO staff's response to Question #2.

Question #2: I just saw an ad from El Camino Hospital District in the Los Altos Town Crier Newspaper stating: If ECH District is dissolved, taxpayers would receive no refunds, nor a reduction in taxes. Tax revenues collected would be redistributed to other government agencies that receive property taxes with no legal mandate to use the tax allocation for health care purposes. Is that true? If it is, I don't understand how the County can take taxes from a special district and use them elsewhere? Can you explain?

Response: Yes, the statement in the ad (see the attached PDF) is correct. The California Constitution sets the property tax rate at one percent of assessed valuation for all taxable property in the County. If the District were to be dissolved, the one percent property tax would continue to be collected, but would be redistributed to the other taxing entities within the District, including the State, the County, the cities, the schools and other special districts, according to formulas established by State law.

The Santa Clara County Local Agency Formation Commission (LAFCO), which is not a County agency, has been mandated under State law to oversee jurisdictional boundaries of cities and special districts within the County. As part of this mandate, LAFCO is required to periodically determine whether special district services are being provided efficiently and effectively, and whether changes in organization would promote access to services and/or public accountability.

The consultant retained by LAFCO found that El Camino Hospital District is not using tax dollars in a manner that appropriately benefits the taxpayers of the District, and that mechanisms for ensuring financial transparency and public accountability could be strengthened. Therefore, the consultant recommended that the District take certain steps to more equitably distribute community benefit funds, as well as improve financial transparency and public accountability. The consultant did not recommend dissolution, unless the District is unable or unwilling to make the specific changes necessary to achieve these goals. LAFCO would have no authority to determine alternate uses of property taxes if, at some future date, the Commission were to determine that dissolution is an appropriate remedy to the resource allocation and public accountability problems identified by the consultant.

Question #3: As I read the LAFCO audit report, I thought the LAFCO recommendation was for the Hospital to take steps to improve transparency in financial reporting, to ensure that special district revenues are used to support local community benefits, and to separate the District governance from the Hospital governance – all as prerequisites to maintain the special tax district. Did LAFCO actually 'suggest that the District give up ownership of El Camino Hospital?'

Response: No, the statement in the ad (see the attached PDF) is incorrect. The consultant stated that the District remove itself as sole member of the Hospital CORPORATION, in the event the Corporation continues to purchase properties and expand services to areas outside of the District boundaries, or if the District fails to redirect community benefits to District residents or implement improvements in public accountability.

Dunia Noel, Analyst
LAFCO of Santa Clara County
70 West Hedding Street
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www.santaclara.lafco.ca.gov

From: billk [mailto:bkrepick@sbcglobal.net]
Sent: Wednesday, June 13, 2012 11:47 PM
To: Noel, Dunia
Cc: Pete.Constant@sanjoseca.go; Wasserman, Mike; Margaret.Abe-Koga@mountainview.gov; Susan@svwilsonlaw.com; Sam.Liccardo@sanjoseca.gov; Al.Pinheiro@ci.gilroy.ca.us; Shirakawa, George; TerryT1011@aol.com; Kniss, Liz
Subject: RE: El Camino Hospital tax district - confusion over LAFCO audit report?
Importance: High

Hi again-
While awaiting your response, I just saw an ad from El Camino Hospital District in the Los Altos Town Crier Newspaper stating :

If ECH District is dissolved, taxpayers would receive no refunds, nor a reduction in taxes. Tax revenues collected would be redistributed to other government agencies that receive property taxes with no legal mandate to use the tax allocation for health care purposes.

Is that true? If it is, I don't understand how the County can take taxes from a special district and use them elsewhere? Can you explain?

Additionally, the ad stated:
Despite affirming the District's successes, however, the (LAFCO) report suggested that the District give up ownership of El Camino Hospital or potentially LAFCO could dissolve the El Camino Hospital District entirely.

As I read the LAFCO audit report, I thought the LAFCO recommendation was for the Hospital to take steps to improve transparency in financial reporting, to ensure that special district revenues are used to support local community benefits, and to separate the District governance from the Hospital governance – all as prerequisites to maintain the special tax district. Did LAFCO actually 'suggest that the District give up ownership of El Camino Hospital?'

If the two statements in the ad are NOT true – then LAFCO should demand a retraction from the Newspaper and the ECH District.

Please advise.
Thank you
Bill Krepick

From: billk [mailto:bkrepick@sbcglobal.net]
Sent: Tuesday, June 12, 2012 10:46 PM
To: 'dunia.noel@ceo.sccgov.org'
Subject: El Camino Hospital tax district
Hello
I read your report on the recommendations for El Camino Hospital and have one question. If the ECH special tax district is dissolved – does that mean that the ~$16 million in annual taxpayer assessments is reduced to zero – or does the tax revenue go to the County for other uses? And if the special tax continues to be collected, who determines the distribution?
Thanks for clarifying.
Best regards
Bill Krepick
Mountain View, CA

Setting the Record Straight

ABOUT THE EL CAMINO HOSPITAL DISTRICT

For more than 50 years, the El Camino Hospital District has been committed to providing quality health care services to the community in an effective, efficient and transparent manner. As a member of the community, you may be hearing things about the El Camino Hospital District and we wanted to take a moment to set the record straight.

Q. Why was a service review and audit conducted of the El Camino Hospital District?

The Local Agency Formation Commission of Santa Clara County (LAFCo) conducts a service review every five years to better understand the public service structure and ensure that health services are being efficiently and effectively provided in the District.

The audit was conducted to answer specific questions related to how the District is governed, its financial relationship to El Camino Hospital, and the financial reporting/transparency of both entities.

Q. What were the findings of the Service Review and Audit?

The report, which was prepared for LAFCo by a third-party consultant, concluded that the District and the Hospital are operating appropriately, effectively and efficiently, that tax proceeds are properly accounted for and tracked, that they provide a vital health care service in the community and, most importantly, that the District has demonstrated an ability to contain costs and improve financial performance.

Despite affirming the District's successes, however, the report suggested that the District give up ownership of El Camino Hospital or potentially LAFCo could dissolve the El Camino Hospital District entirely.

Q. What happens if the El Camino Hospital District is dissolved?

Taxpayers would receive no refunds, nor a reduction in taxes. Tax revenues collected would be redistributed to other government agencies that receive property taxes with no legal mandate to use the tax allocation for health care purposes.

Further, dissolution could result in a change in how the Hospital is governed, which would decrease transparency and accountability to the residents of the District.

Q. Is there still a need for the El Camino Hospital District?

Yes. The District ensures local public control and ownership of the Hospital for the benefit of residents. The District provides support for critical health care services that reach thousands of residents annually through its Community Benefit program, and for improvements to hospital facilities in the District.

Q. As a concerned resident, is there anything I can do?

District residents can send a written comment to the LAFCo Commissioners, asking them to vote against recommendations presented in the El Camino Hospital District Service Review and Audit. Comments submitted by June 22 to dunia.noel@ceo.sccgov.org will receive a response from LAFCo.

El Camino Hospital® District

To learn more about the Service Review and Audit, and to read the District's response, please visit: www.elcaminohospitaldistrict.org/audit.

Noel, Dunia

From: Barbie [westb@me.com]
Sent: Wednesday, June 13, 2012 3:08 PM
To: Noel, Dunia
Subject: PLEASE VOTE AGAINST RECOMMENDATIONS PRESENTED IN THE EL CAMINO HOSPITAL DISTRICT SERVICE REVIEW AND AUDIT

Dear LAFCo Commissioners,

Please vote AGAINST recommendations presented in the El Camino Hospital District Service Review and Audit.

The District ensures local public control and ownership of the Hospital for the benefit of residents.

We are very happy with the EXCELLENT quality of care that we get at El Camino Hospital.

We want local control. We DO NOT want another Sutter Hospital. Just look at all the turmoil at Sutter Hospitals -- nursing strikes, hospital errors that kill patients. We do not want that here.

Sincerely,

Barbara West
10670 Cordova Rd.
Cupertino, CA 95014

Noel, Dunia

From:	Dennis L. West [westd@me.com]
Sent:	Friday, June 15, 2012 6:13 PM
To:	Noel, Dunia
Subject:	PLEASE VOTE AGAINST RECOMMENDATIONS PRESENTED IN THE EL CAMINO HOSPITAL DISTRICT SERVICE REVIEW AND AUDIT

Dear LAFCo Commissioners,

Please vote AGAINST recommendations presented in the El Camino Hospital District Service Review and Audit.

The Present District ensures local public control and ownership of the Hospital for the benefit of residents.

I'm very happy with the EXCELLENT quality of care that I get at El Camino Hospital.

Patients of El Camino Hostpital want local control and DO NOT want another Sutter Hospital with nursing strikes, hospital errors that kill patients.

Sincerely,

Dennis West
10670 Cordova Rd.
Cupertino, CA 95014

Noel, Dunia

From: Dick Guertin [dick.guertin@gmail.com]
Sent: Saturday, June 16, 2012 12:39 PM
To: Noel, Dunia
Subject: El Camino Hospital District

To: the Local Agency Formation Commission of Santa Clara County.

I urge you to vote NO on the recommendation to dissolve the El Camino Hospital District as presented in the recent Service Review and Audit. The only way to dissolve the District, and maintain voter confidence, is to also eliminate all property taxes levied for the benefit of the District. Otherwise, LAFCo would be violating public trust.

Respectfully submitted,
Richard L. Guertin
507 Drucilla Drive
Mountain View, CA.

Noel, Dunia

From: Wasserman, Mike
Sent: Monday, June 18, 2012 6:06 PM
To: Noel, Dunia
Cc: Velasco, Roland
Subject: FW: LAFCo report and the community benefit efforts of the El Camino Hospital District
Attachments: MayView ECH Support_Wasserman.pdf

Dunia,

Please read the attached, respond as you see fit and copy me.

Thank you.............M

Mike Wasserman
Supervisor, District One
Santa Clara County Board of Supervisors
70 West Hedding Street, 10th Floor, East Wing
San Jose, CA 95100
(408) 299-5010 | (408) 295-6993 (Fax)
Mike.wasserman@bos.sccgov.org | www.supervisorwasserman.org

From: Shamima Hasan [mailto:shamima@mayview.org]
Sent: Monday, June 18, 2012 11:31 AM
To: Wasserman, Mike
Cc: Barbara Avery; Cecile Currier
Subject: LAFCo report and the community benefit efforts of the El Camino Hospital District

Dear Commissioner Wasserman,

Attached please see the letter expressing concern by the Board of Directors of MayView Community Health Center, over the Local Agency Formation Commission (LAFCo) of Santa Clara County recently conducted service review and audit of The El Camino Hospital District.

Regards.

Shamima Hasan
Chief Executive Officer
MayView Community Health Center
270 Grant Avenue, Palo Alto
California 94306
Phone: 650 327 1223
Fax: 650 327 8572
www.mayview.org

Providing Quality Health Care for All

MAYVIEW
COMMUNITY HEALTH
CENTER

June 15, 2012

Commissioner Mike Wasserman, Vice Chairperson
LAFCO of Santa Clara County
70 West Hedding Street, 10th Floor
San Jose, CA 95110

RE: May 30, 2012 LAFCO Meeting - El Camino Hospital District Audit/Service Review Report

Dear Commissioner Wasserman,

MayView Community Health Center (MayView) is a provider of health care services in the El Camino Hospital District. I am writing on behalf of the MayView Board of Directors, to state that MayView has for many years partnered with El Camino Hospital to provide health care to the residents of the district. I sincerely hope that the recommendations of the *Audit and Service Review of the El Camino Hospital District* report will not jeopardize the support we get from the El Camino Hospital District Community Benefits program and affect my organization's ability to provide comprehensive primary health care services (preventive health, general medicine, gynecology, reproductive health, well-child care, pediatrics, HIV testing and counseling, STD testing and treatment, comprehensive perinatal care) and behavioral health.

In today's economy, it is harder and harder for our organization to get the funding it needs and without the El Camino Hospital District Community Benefits program, our program is at risk for being unable to carry out our important work. Without this funding, we would not be able to provide primary care services to 685 unduplicated uninsured residents of Mountain View annually. We contribute in keeping them out of ER and hospital visits. Through the $335,000 in El Camino Hospital District grants over the last three years, MCHC has seen 3,400 uninsured or underinsured community members and provided critical services that promote healthy communities while preventing more costly services to the overall health system.

Being a Community Benefits grantee means being part of a collaborative, productive and efficient effort to meet the community's health care needs, which is assessed every three years. We work closely with District Community Benefit administrators to create specific metrics and provide ongoing progress on how we're achieving those metrics and demonstrating the true impact of our services. An example of this would be, as part of the reporting matrix, MayView tracks Diabetes Management and Patient Outcomes for patients in Mountain View with the Community Benefit funding. Over the last two years, MayView has established baseline data and set clinic population targets for percentage of patients in the registry with HbA1c and LDL levels that are considered to be under control. Since MayView has started tracking these data points, patients with HbA1c levels under 7 have increased by 4%, and patients with LDL levels under 130 have increased by 2%.

We sincerely urge that changes to structure of the District should not impact the important work that we do in our community to over 6,000 unduplicated clients with over 20,000 medical visits per year. Any change may and could potentially prevent the most at-risk communities from gaining access to life saving and more often, life enhancing medical care.

I sincerely hope and that the LAFCO Board will consider our concerns and decide accordingly, when it meets on August 1.

Sincerely,

LDBaker

Louise D. Baker
President, MayView Board of Directors.

cc: Barbara Avery, El Camino Hospital (via e-mail)
cc: Cecile Currier, El Camino Hospital (via e-mail)

The **SOBRATO** (nization

Sobrato Development Company, LLC
Sobrato Builders, Incorporated
Sobrato Construction Corporation
Sobrato Family Holdings, LLC
Sobrato Family Foundation

June 19, 2012

Hon. Pete Constant, Chairperson & Commissioners
LAFCO of Santa Clara County
70 West Hedding Street
11th Floor, East Wing
San Jose, CA 95110

RE: El Camino Hospital District Audit/Service Review Report

Dear ~~Chairperson Constant,~~ Hi, PETE

For more than 100 years, Valley Medical Center has provided vital health care services to El Camino Hospital District residents. As the largest provider of care in Silicon Valley, VMC cares for one in four residents of Santa Clara County. The VMC Foundation has for 24 years supported that mission, and relies on the partnership of the El Camino Hospital District.

As a member of the Board of Directors of the VMC Foundation for the last 21 years, I am passionate about and proud of the excellent work that we do. Because of generous and consistent funding from the District, we have been able to provide for thousands of residents of Sunnyvale, Mountain View and surrounding areas. Our Valley Health Center Sunnyvale delivers primary care and dentistry in large part through a generous grant from El Camino Hospital District. However, I am worried that all of these important programs and services that we provide to District residents are now at serious risk.

I have read the recommendations made in the *Audit and Service Review of the El Camino Hospital District* report and am deeply concerned by them. If implemented, they would negatively impact VMC's services to thousands of District residents.

We are operating at a time in which federal and state funding of healthcare services to the underserved continues to be cut. As such, we rely on the Community Benefits program for much of our funding. We cannot do our work without the support of the District, which brings not only an unparalleled understanding of the District's health care needs, but the funding that makes our programs a reality. Changing the structure or method of how these funds are disbursed through the established grant system would cause a serious disruption to how health services are provided and could prevent us from helping those who have the greatest health care needs.

As a Board Member, I am committed to ensuring that we have sufficient funding available to continue our valuable work. Therefore, I ask you to vote against the recommendations in the *Service Review and Audit of the El Camino Hospital District*. Doing so will positive impact thousands of residents in the District who benefit from those programs and services every day.

Sincerely,

John A. Sobrato
Member, Board of Directors
cc: Barbara Avery, El Camino Hospital (via e-mail)

the VMC foundation

Helping Silicon Valley Care

2400 Moorpark Avenue
Suite 207
San Jose, CA 95128
Ph (408) 885-5299
Fax (408) 885-5207

www.vmcfoundation.org

June 19, 2012

Hon. Pete Constant, Chairperson & Commissioners
LAFCO of Santa Clara County
70 West Hedding Street
11th Floor, East Wing
San Jose, CA 95110

RE: El Camino Hospital District Audit/Service Review Report

Dear Chairperson Constant,

For more than 100 years, Valley Medical Center has provided vital health care services to El Camino Hospital District residents. As the largest provider of care in Silicon Valley, VMC cares for one in four residents of Santa Clara County. The VMC Foundation has for 24 years supported that mission, and relies on the partnership of the El Camino Hospital District.

As a member of the Board of Directors of the VMC Foundation for the last five years, I am passionate about and proud of the excellent work that we do. Because of generous and consistent funding from the District, we have been able to provide for thousands of residents of Sunnyvale, Mountain View and surrounding areas. Our Valley Health Center Sunnyvale delivers primary care and dentistry in large part through a generous grant from El Camino Hospital District. However, I am worried that all of these important programs and services that we provide to District residents are now at serious risk.

I have read the recommendations made in the *Audit and Service Review of the El Camino Hospital District* report and am deeply concerned by them. If implemented, they would negatively impact VMC's services to thousands of District residents.

We are operating at a time in which federal and state funding of healthcare services to the underserved continues to be cut. As such, we rely on the Community Benefits program for much of our funding. We cannot do our work without the support of the District, which brings not only an unparalleled understanding of the District's health care needs, but the funding that makes our programs a reality. Changing the structure or method of how these funds are disbursed through the established grant system would cause a serious disruption to how health services are provided and could prevent us from helping those who have the greatest health care needs.

As a Board Member, I am committed to ensuring that we have sufficient funding available to continue our valuable work. Therefore, I ask you to vote against the recommendations in the *Service Review and Audit of the El Camino Hospital District*. Doing so will positive impact thousands of residents in the District who benefit from those programs and services every day.

Sincerely,

Balaji Govindaswami, MD, MPH
Member, Board of Directors
cc: Barbara Avery, El Camino Hospital (via e-mail)

the VMC foundation

Helping Silicon Valley Care

2400 Moorpark Avenue
Suite 207
San Jose, CA 95128
Ph (408) 885-5299
Fax (408) 885-5207

www.vmcfoundation.org

June 19, 2012

Hon. Pete Constant, Chairperson & Commissioners
LAFCO of Santa Clara County
70 West Hedding Street
11th Floor, East Wing
San Jose, CA 95110

RE: El Camino Hospital District Audit/Service Review Report

Dear Chairperson Constant,

For more than 100 years, Valley Medical Center has provided vital health care services to El Camino Hospital District residents. As the largest provider of care in Silicon Valley, VMC cares for one in four residents of Santa Clara County. The VMC Foundation has for 24 years supported that mission, and relies on the partnership of the El Camino Hospital District.

As a FOUNDING member of the Board of Directors of the VMC Foundation, I am passionate about and proud of the excellent work that we do. Because of generous and consistent funding from the District, we have been able to provide for thousands of residents of Sunnyvale, Mountain View and surrounding areas. Our Valley Health Center Sunnyvale delivers primary care and dentistry in large part through a generous grant from El Camino Hospital District. However, I am worried that all of these important programs and services that we provide to District residents are now at serious risk.

I have read the recommendations made in the *Audit and Service Review of the El Camino Hospital District* report and am deeply concerned by them. If implemented, they would negatively impact VMC's services to thousands of District residents.

We are operating at a time in which federal and state funding of healthcare services to the underserved continues to be cut. As such, we rely on the Community Benefits program for much of our funding. We cannot do our work without the support of the District, which brings not only an unparalleled understanding of the District's health care needs, but the funding that makes our programs a reality. Changing the structure or method of how these funds are disbursed through the established grant system would cause a serious disruption to how health services are provided and could prevent us from helping those who have the greatest health care needs.

As a Board Member, I am committed to ensuring that we have sufficient funding available to continue our valuable work. Therefore, I ask you to vote against the recommendations in the *Service Review and Audit of the El Camino Hospital District.* Doing so will positive impact thousands of residents in the District who benefit from those programs and services every day.

Sincerely,

Susanne B. Wilson, Acting Chair

cc: Barbara Avery, El Camino Hospital (via e-mail)

Harry M. Taxin
1415 Redwood Drive Los Altos, CA 94024-7250
Tel/Fax: 650.962.9696 Mobile: 650.207.2107
hmtaxin@seahaven.net

June 20, 2012

Hon. Pete Constant, Chairperson & Commissioners
LAFCo of Santa Clara County
70 West Hedding Street
11th Floor, East Wing
San Jose, CA 95110

RE: El Camino Hospital District Audit/Service Review Report

Dear Chairperson Constant,

My name is Harry M. Taxin, I live in Los Altos and I am a member of the El Camino Hospital Community Advisory Council, as well as a taxpaying District resident. I am writing you today because I am worried about the future of how health care will be delivered in my community.

I am proud that we have a hospital in our community, owned by the taxpayers, that is both a large employer and a provider of quality health care. Five years ago I had surgery performed at the hospital, making a decision to use the more convenient and more comfortable local hospital compared to Stanford or other choices. Needless to say, the care was superb, and it was very gratifying to realize that such a top-notch hospital was located merely minutes from my home.

I am concerned that the Service Review and Audit suggests that our hospital should be removed from voter control, even after the report stated clearly that it provides a valuable service and is operating efficiently and effectively. As a taxpayer and voter in this community, not only do I disagree with that recommendation, more importantly I think the decision should ultimately be one for the voters after a proper presentation of both sides of any pertinent argument, not simply a consultant's recommendation.

After all, voters established the District 50 years ago to ensure that health care would be provided to the residents in the area. Further, the voters more recently approved a measure to re-build the Mountain View hospital to make it seismic compliant and meet the State mandate. We would never have approved that measure if we believed that the District or the hospital was not meeting the District's needs.

I believe the District and the hospital are doing an excellent job, and forcing the District to give up control over the hospital would have a far-reaching impact that could affect the hospital's standing as one of the area's largest employers, not to mention a possible disruption of funding to under-served communities who benefit from taxpayer dollars allocated to the Community Benefit program.

I urge the LAFCo Board to vote against these recommendations on August 1.

Sincerely,

Harry M. Taxin

Harry M. Taxin
cc: Chris Ernst, El Camino Hospital (via e-mail)

SEIU-UHW
United Healthcare Workers West

UNITED HEALTHCARE WORKERS WEST
SERVICE EMPLOYEES INTERNATIONAL UNION, CLC

Dave Regan - President
Stan Lyles - Vice President

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510-251-1250
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www.SEIU-UHW.org

June 20, 2012

Pete Constant, Chairperson
Santa Clara County Local Agency Formation Commission
70 W. Hedding St, 11th Fl, East Wing
San Jose, CA 95110

RE: El Camino Healthcare District and LAFCO Audit, Public Comment

Dear Commissioner Constant:

On behalf of workers, residents, and patients of the El Camino Hospital District (ECHD), we strongly support and concur with the findings and recommendations of the recent audit of ECHD commissioned by LAFCO. While we believe that the community is best served by a public healthcare district and do not support dissolution, ECHD has not been operating with the transparency and accountability we expect from a public entity. LAFCO should adopt and implement the recommendations of the audit, which we believe can help ECHD better care for the public it was created to serve.

We have stated our concerns about transparency and accountability to ECHD in the past (see attached letter to ECH CEO Tomi Ryba dated May 22, 2012), and so we are not surprised by the findings of the audit. We are particularly concerned about the closed budget process of ECHD, where minimal information is available to the public and opportunities to provide input are limited.

Based on our experience, ECHD only makes its proposed annual budget available a few hours before the meeting at which it will be adopted. There is little time for any member of the public to review the budget, and even less time to develop a response. Even with time to develop input, ECHD only allots a few minutes at its meetings for public comment before voting on that same budget.

In addition, the proposed annual budget used by ECHD lacks the specifics the public needs to review the financial and operational priorities of the district. The public needs a line-item budget to determine how ECHD actually plans to spend its money.
For example, if the district decided to spend less on safety measures, there is no way for any member of the public to determine that until it's too late to do anything about it.

The exclusion of the public from the budget process is just one example of ECHD's lack of transparency and accountability. As another recent example, ECHD paid over $20 million to a consulting firm, but when asked for a copy of the final report, ECHD refused to comply. They only provided a copy with the vast majority of text redacted--with some pages completely blacked out. To date, ECHD has still not provided a readable copy of the report, despite numerous requests made under the Public Records Act.

As the audit confirms, ECHD needs to take major steps in the areas of accountability and transparency. In addition to the recommendations of the audit, we would add the following recommendations, based on our recent interactions with the district:

- ECHD must make a detailed, line-item annual budget available to the community
- ECHD must make the proposed annual budget available to the public at least thirty days prior to any board action/vote
- ECHD must hold multiple hearings in locations convenient to district residents, open to the public with adequate time for public input, on the development of the annual budget, prior to adoption of said budget
- ECHD board meeting agendas must include sufficient time allotted for public comment, particularly when that agenda includes budget issues.
- ECHD must make any contracts over $10,000 available to the public, and such contracts must require board consideration/approval with sufficient time and notice for public comment and participation
- ECHD must make full, public disclosure of its executive compensation (such as amounts paid to any executive making over $200,000), and any changes to executive compensation must require board consideration/approval with sufficient time and notice for public comment and participation
- ECHD must account for every dollar raised by the district and list how that money is spent so the public is assured that the funds are spent appropriately within the district
- ECHD must develop a policy committing a minimum percentage of its revenues on community benefits/charity care programs. The policy must be developed and implemented with full public participation, with sufficient time and notice for public input.
- ECHD must regularly report on its community benefits programs and expenditures, allowing district residents to monitor, evaluate, and provide continual input on ECHD's community commitment
- ECHD must make publicly available any reports and/or studies commissioned by the district relating to its operations, without redacting or otherwise withholding information from the public

As a public entity, ECHD must be accountable to the community it serves. The LAFCO audit confirms that ECHD has failed to live up to this responsibility. Therefore, we strongly support the findings and the first recommendation of the audit. ECHD must make improvements in its governance, transparency and public accountability in order to align with its mission as a public healthcare district. Without implementation of the recommended changes, ECHD operates as a public entity in name only.

Sincerely,

Rebecca Miller
Political Director
SEIU – United Healthcare Workers West

cc: El Camino Healthcare District Board
El Camino Hospital Board
Hal Ruddick, SEIU-UHW, Hospital Division Director

SEIU-UHW
United Healthcare Workers West

UNITED HEALTHCARE WORKERS WEST SERVICE EMPLOYEES INTERNATIONAL UNION, CLC

Dave Regan - President
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May 22 2012

Tomi Ryba, President and CEO
El Camino Hospital
2500 Grant Rd
Mountain View, CA 94040

Via Fax: 650-988-7862/USPS Certified Mail 70101060000195767240

Re:Transparency Concerns Regarding El Camino's Budget Process

Dear Ms. Ryba:

We live in a time when the public's trust in local government is at an all-time historic low. Now more than ever, the public urges the El Camino Hospital District Board to ensure the public trust and establish a system of transparency, public participation and collaboration. Openness will strengthen our democracy and promote efficiency and effectiveness.

We believe that the current process utilized by the El Camino Hospital District Board to develop its annual budget lacks both accountability and transparency.

Instances of a lack of transparency in the budgetary process are numerous. For example, the public is not allowed to participate or observe discussions relating to the development of El Camino's annual budget. These critical discussions happen behind closed doors during "special meetings" and "budget workshops."

A closed door that locks out public observation and participation is the antithesis of transparency. This behavior is opaque, and it stokes further public mistrust.

It is simply inexcusable to keep the public out of discussions around the annual budget of a district which took in over $622 million in operating revenues last year.

Transparency promotes accountability because it provides information for citizens about what their government is doing. Do not close the door on the public. It only makes us wonder what you have to hide.

A local governing body that truly values accountability would give adequate time to the public to review the budget before it got adopted. This is currently not the practice of the El Camino Hospital District Board.

At best, the board releases the budget one or two days before the approval meeting. In some cases, the budget has only been available at the start of the approval meeting.

This is hardly enough time for members of the public to analyze the proposed budget, and it certainly is not enough time for the public to make any follow-up inquiries about budgetary provisions. Moreover, the amount of time given to the public for comment is almost nonexistent. At its June 8, 2011 meeting to approve the budget, the district board allotted a total of five minutes on its agenda for public comment.

Government should be participatory. Public engagement enhances the Government's effectiveness and improves the quality of its decisions. It is a waste to not take advantage of the public's interest and knowledge.

We are not the only ones who are alarmed by the board's lack of transparency and accountability.

El Camino's lack of transparency is also highlighted by the 2010-2011 Santa Clara County Civil Grand Jury Report which found, among other things, that there is a lack of transparency on how the tax revenues are spent in the district and that there is no one accountable to the district taxpayers as to how taxpayer monies are spent.

Many questions could be asked about El Camino's budget and financial plan, such as the following:

- In the first nine months of fiscal year 2012, El Camino reported over $54 million in net income. With $54 million of what is essentially profit, why is El Camino not reinvesting to improve the quality of patient care by making sure its frontline caregivers and employees have adequate access to healthcare? The money saved when it reduced the healthcare benefits to its employees is only a fraction of that $54 million windfall.

- El Camino paid over $12 million to consulting firm Wellspring (now Huron Consulting Group), but when asked for a copy of the final report, El Camino only provided a copy with the vast majority of text redacted. Why is this valuable information being kept away from the public? What was learned from the report?

As a public healthcare district, El Camino must allow the public access and input into its budget process and operations, otherwise it is not accountable to the community it serves. We urge El Camino to adopt an open, inclusive budget process immediately, with clear steps to actively engage and involve the public in every phase of the annual budget process.

SEIU-UHW recently came to a historic comprehensive agreement with the California Hospital Association in which both parties jointly take on the many challenges facing the health care system, including rising costs, burgeoning levels of chronic disease, and the need to provide the highest quality of care for the people of California. We invite El Camino Hospital to join us in this effort. We are committed to reduce the cost of healthcare for all Californians and we believe public participation in the budgetary process will help us find innovative way to confidently face our healthcare challenges.

Sincerely,

Max Arias

SEIU – United Healthcare Workers West

Cc: El Camino Hospital District Board

June 20, 2012

Pete Consatant, Chairperson
Santa Clara County Local Agency Formation Commission
70 W. Hedding St., 11th Fl, East Wing
San Jose, CA 95110

RE: El Camino Healthcare District and LAFCO Audit, Public Comment

Dear Commissioner Constant,

I am an administrative support employee at El Camino Hospital in the Mother/ Baby Unit. It has been a pleasure for me to work there for the past 11 years. My history with El Camino Hospital dates back to when my mother first started working there more than 33 years ago. Soon after, I was born at ECH. Later I acquired work in the, then, Maternity Unit of ECH. Lastly my children were born there, with one more on the way scheduled to make history at El Camino once again. I have great respect for this institution as it was been a source of gainful employment and healthcare for my family and I.

I am, however, troubled by a couple of recent findings 1) That El Camino Hospital's boards, both corporate and district, lack transparency and 2) That the ECH District serves less than half the community with its district funds.

I have been attending ECH board meetings for the last year and am, frankly, confused by the agendas set forth with private sessions intermingled with public sessions and with the same people running both boards. As a Not-For Profit hospital who receives great amounts of tax payer money, shouldn't the meetings be held publicly 100% of the time? Also, if the same people are running both the corporate and district boards, where is the accountability? I believe that the governance of this public hospital is muddled with secrecy and conflict of interest.

The other issue that I find troubling is the fact that less than half the El Camino Hospital Healthcare District is being served by El Camino Hospital. Through the years I have noticed a higher percentage of patients receiving care in the Mother/ Baby unit who come from areas other than those from the community. The Mother/ Baby unit is a highly profitable unit for the hospital. Our unit houses 44 maternity beds. We care for more than 350 mothers and 350 babies per month. Most of the patient population is healthy and does not require extensive healthcare. I have not seen any effort from my department put forth to reach out to the immediate community. For example, I know that a large population of patients exists within the communities that depend on Medical. Yet an extremely low percentage of these patients come to El Camino Hospital. Shouldn't El Camino Hospital reach out to these patients with ECH district funds? After all, that is what the district is for. I believe that everyone in the community should find ECH to be "their" go-to hospital. Not just the privileged.

I have read the Audit and Service Review of the El Camino Hospital District and agree with its findings and recommendations. I am especially in favor for implementing "improvements in governance, transparency and public accountability". I oppose the option of dissolution of the El Camino Hospital District as I believe it would hurt the care the hospital gives to the community and the bay area. Thank you for your time.

Sincerely,

Evelia Cruz
Employee of El Camino Hospital
412 Wisteria Dr
East Palo Alto, CA 94303

June 20, 2012

Pete Constant, Chairperson
Santa Clara County Local Agency Formation Commission
70 W. Hedding St, 11th Fl, East Wing
San Jose, CA 95110

RE: El Camino Healthcare District and LAFCO Audit, Public Comment

Dear Commissioner Constant:

I've been an employee of El Camino Hospital (ECH) for 34 years. I am not a disgruntled employee; I love El Camino Hospital. I am proud of the work that I and my coworkers provide to the community. When I needed a recent surgery, it was performed at El Camino Hospital. My wife has been both an employee and patient of the hospital and my son was born there.

I work in Behavioral Health. Psychiatric units have been closed in this area and all over the state because they make little profit or lose money. Because I work at non-profit El Camino Hospital we can provide or even expand services to the underserved and vulnerable people in our community with mental illness. It is only because we provide a community benefit rather than serve a profit motive that we are able to continue this vital aspect of healthcare without significant reductions in quality of care.

I am concerned, however, that our elected hospital board members have lost touch with working class people in our area and do not appreciate the democratic process. I have attended board meetings (both the Hospital District and Corporate Board meetings) for the last 2 years. I don't doubt that the board members are smart and well meaning people and I appreciate that they donate so much time and energy to our hospital. What concerns me most is the lack of accountability and transparency. Before citing examples, I want to note that none of current 'elected' board members have ever run in a contested election and they live in an area of the district that is much more affluent than neighboring communities (within the district).

I am an (unpaid) union representative at El Camino Hospital. I have been involved in contract negotiations, disciplinary hearings, and joint committees of employees and managers that have met to address various hospital issues. I am quite proud of the fact that our employees have participated with management to develop better quality control and to identify patient care concerns. Our previous CEO was an advocate of collegial relationships and quality of care and morale were high.

For reasons never made public, this popular and successful CEO was dismissed and El Camino Hospital imposed implemented contracts on both registered nurses and other caregivers. The unions asked why severe cuts to vacation time, overtime and holiday pay, shift differential pay, retirement contributions, and most grievously, cuts to our healthcare benefit were justified in light of profits far exceeding those budgeted. The employees became further concerned to learn that outside efficiency experts were examining every aspect of the hospital to curtain costs.

When we asked to see evidence that cost cutting could be accomplished without sacrificing patient care, it was denied us. We asked to be part of the process and this too was denied. Information requests which are a part of the collective bargaining process were also denied us. We had to file unfair labor practice charges to only recently learn that this consultant was paid more than $17 million dollars to recommend cost savings that included cuts to employee compensation.

We were willing to absorb some cuts in compensation during this time of economic hardship but couldn't understand why cuts proposed to us far exceeded those of other area hospitals that are not as prosperous as El Camino Hospital. We were dumbfounded too when the hospitals announced executive pay raises and executive bonuses of as much as 30%. The new CEO is to be paid $695,000 and with a bonus could be paid six times as much as the California governor.

The hospital board justified this and other executive salaries by saying that they hired a consulting firm to benchmark ECH executive pay with "comparable hospitals" nationwide (after adding 30% to those other hospitals to compensate for an increased cost of living in this area). The information about the benchmark hospitals was requested and denied.

The hospital recently approved a budget. Information about the budget was requested but provided only a few days prior to the board meeting in which it was approved. Some members of the community would have liked to have input into the budget process but this lack of transparency made that difficult. Other concerns that some community members have expressed about the issues of transparency and accountability include the purchase of the Los Gatos hospital and advertising that include the sponsorship of a professional sports team.

I have read the *Audit and Service Review of the El Camino Hospital District* prepared by Harvey M. Rose Associates, LLC. The audit identified several "weaknesses in governance, transparency and public accountability." The audit found that "there is no functional distinction between District and Corporation governance, management and finances." The audit also states that "Neither the District nor the Corporation provide remarkable level of community benefits to District residents, when compared with other healthcare districts in the State and with other hospitals within Santa Clara County" even though the district receives the second highest amount of tax dollars.

To the hospital's credit they have made some improvements toward better governance, the budget was easier to understand than past budgets and more clearly tied to organizational goals but still short on specifics and lacking in community input. New member have been added to the Corporate board but again with little input from the public (no member of the public who applied to be on the Corporate board except those chosen by a consulting firm survived the vetting process). I am very concerned by the hospital's response to LAFCo and the Santa Clara County Grand Jury. They argue for the status quo and question the authority of those who would impose reform on them. Again, these elected officials don't act like they are accountable, not to the Grand Jury, not to LAFCo, and not to the public. At the last board meeting, one of the board members said he was "tired of hearing about a lack of transparency." I am tired of public officials who are tired of hearing from the public and who think it is their privilege to govern in our best interests.

Harvey M. Rose Associates recommended that the LAFCo Board should "implement improvements in governance, transparency and public accountability" and made suggestions in a subsection of their report entitled, "Maintain District Boundaries/improve Governance, Transparency and Accountability." I favor those recommendations and am adamantly opposed to the harsher option of dissolution of the El Camino Hospital District. Thank you for making yourself available to my comments.

Sincerely,

Kary Lynch
Employee of El Camino Hospital
3189 Rama Drive
San Jose, CA 95124

June 21, 2012

Pete Constant, Chairperson
Santa Clara County Local Agency formation Commission
70 W. Hedding St., 11th Fl, East Wing
San Jose, CA 95110

RE: El Camino Healthcare District and LAFCo Audit, Public Comment

Dear Commissioner Constant:

I am an employee of El Camino Hospital for more than 34 years. I love working for ECH, that's why I am still here. For the first nine years I worked as a dietitian in the acute care setting and the past 24 years as a dietitian in the 3 out-patient dialysis clinics that the hospital operates. The dialysis unit that I currently work at, ECH Evergreen Dialysis, has been cited in a San Jose Mercury News article in April, 17, 2012 as one of the clinics in the Bay area to have a strong safety record according to a Pro-Publica dialysis survey done nationwide for 5000 dialysis centers. I am proud to work for El Camino Hospital and the high standard of practice in patient care delivery. Somehow with the business changes being made and emphasis on profit in order to survive being pounded on us ,the hospital can compromise its mission.
Our former CEO, Ken Graham, who was awarded the highest honor for his leadership in the health care industry, supported the continued operations of the dialysis service line. Dialysis is a vital, life-giving service provided to the community. Now the ECH dialysis services ' future is at risk of surviving because of the hospitals current leadership.

Over the last fifteen years I have noticed a shift in the hospital operations. Since 1995, there was more concern by the employees about the manner in which our salaries, retirement and health benefits and how management had distanced itself from its employees. Thus, in 2000 the employees sought to bring SEIU so the employees could have a voice through their union. Last year Santa Clara Country civil grand jury found the hospital not being transparent with how the local property taxes collected were spent. It was hard to determine if local tax collected was going back to the community in terms of services and not salaries and other operational costs.

The hospital needs to be more accountable to its employees and the community it serves. I am appealing the LAFCo Board to support the maintenance of the El Camino Hospital District but improve the governance , transparency and accountability of its operations as a district hospital.

Sincerely,

Evelyn Middleton
453 Taylor Drive
Milpitas, Ca 95035

Noel, Dunia

From:	Sally Lieber [sally@sallylieber.org]
Sent:	Friday, June 22, 2012 5:01 PM
To:	Noel, Dunia
Subject:	LAFCO comment letter - El Camino
Attachments:	LAFCO comments - Lieber.pdf
Follow Up Flag:	Follow up
Flag Status:	Flagged

Please find my comment letter attached.

Hon. Sally J. Lieber
State Assemblywoman (Ret.)
456 Sierra Ave.,
Mountain View, CA 94041

Santa Clara County Local Agency Formation Commission 6/20/12
Hon. Pete Constant, Chairperson
70 W. Hedding St, 11th Fl, East Wing
San Jose, CA 95110

Dear Commissioner Constant and Members of the Commission,

Thank you for the opportunity to comment on LAFCO's Draft Audit and Service Review of the El Camino Hospital District. For many years the community that the District serves has sought greater clarity of the District's operating structure and greater accountability and transparency on the part of the Hospital Corporation.

It is clear that the governance structure benefits the Corporation in providing significant access to capital and favorable financing. As was cited in the report, the District receives (and is able to render to the Corporation) the second highest amount of property taxes of any healthcare district in our State.

Despite this, it appears that community benefits are lagging, even when compared against a local cohort. The low-level of services for community members accessing Medi-Cal is troubling. Changes that appear likely at the state level—namely the integration of families and children currently accessing the Healthy families program into Medi-Cal—will further exacerbate disparities and a lack of service provision within the district puts additional pressures on families and on services provided throughout the County.

Given the significant public contributions to the District (and the Corporation) it is appropriate that the District take meaningful steps to increase transparency, clarity, financial accountability. In concert with the Corporation, the District should work to strength community and intergovernmental relations by making budget and community benefit presentations to City Councils in the sphere of influence and to the County Board of Supervisors. These reports should indicate performance measures and how the District and Corporation compare with other public agencies on the financial resources committed to outside consultants and counsel.

The District should also consider a resolution stating that they will hold the Corporation responsible for fulfilling the requirements of a public agency, inclusive of the Brown Act and Public Records Act and request an affirmative statement of accountability for these principles on the part of the Corporation's Board.

Again, thank you for the opportunity to comment on the draft report.

Sincerely,

Sally J Lieber

cc: El Camino Healthcare District Board, El Camino Hospital Board

Noel, Dunia

From:	cjv [cjv@vonne.org]
Sent:	Friday, June 22, 2012 9:17 AM
To:	Noel, Dunia
Cc:	Tomi.Ryba@elcaminohospital.org; Robert Adams
Subject:	LAFCo and the El Camino Hospital District
Follow Up Flag:	Follow up
Flag Status:	Flagged

Dear LAFCo members,

I have been researching El Camino Hospital and El Camino Hospital District Board since late last year. I have attended numerous meetings of both the hospital corporate board and the district board I believe I am starting to understand how things work.

I feel the district IS needed due to the invaluable funds used for the community outreach and that reaches under-privileged and under-served populations. I just finished my EMT training and I intend to sign up to volunteer at the Rotocare clinic, one of these valuable resources supported by the district funds.

The hospital and district operations are complicated to understand, yet I notice great lengths being taken to have the public understand the operations. I think that anytime a group tries to operate more transparently, there needs to be iterative refinement of the process and the public has to "catch up" to the fact operations are changing. I feel this iterative refinement process is happening. I am considering running for a district board position in November to participate in this on-going and continuous process.

I know one issue of contention is the purchase of Los Gatos hospital (purchased by the hospital corporation, not with district funds). This hospital has turned out to be a positive and valuable asset to El Camino Hospital and so whether I would have agree with the original purchase or not is not relevant anymore. Further, if this relationship had not turned out beneficial, options such as divesting of the asset would have been (still would be in the future) possible. Any given board has many decisions to make, some more popular than others with various constituents. We elect these people to do this on our behalf. The best approach in my mind if activities are grossly out of line with a person or group's feelings about the organization is to run for the district board and make changes from within…that is our democracy.

Regards,
Catherine Vonnegut
2379 Sun Mor Avenue
Mountain View, CA

Noel, Dunia

From: Janet Tobias [jantobias811@gmail.com]
Sent: Friday, June 22, 2012 5:02 PM
To: Noel, Dunia
Subject: El Camino Hospital District

The children in my community are very important to me. I urge the Santa Clara County Local Agency Formation Commission board to vote against the recommendations outlined in the El Camino Hospital District Service Review and Audit. Please allow the hospital district to continue the outstanding work they have been doing for many years.

Sent from my iPhone

Noel, Dunia

From: Abello, Emmanuel
Sent: Friday, June 22, 2012 2:17 PM
To: Noel, Dunia
Subject: FW: El Camino Hospital District Comments on LAFCO Draft Report
Attachments: LTR-Pete Constant.pdf; Exhibit A.pdf; Exhibit B.PDF; Exhibit C.pdf

Importance: High

For your info, Dunia.

Thank you,
Emmanuel Abello
LAFCO Clerk

From: Sabey, Andrew [mailto:asabey@coxcastle.com]
Sent: Friday, June 22, 2012 2:15 PM
To: Wasserman, Mike; Kniss, Liz; margaret.abekoga@mountainview.gov; Susan@svwilsonlaw.com; Palacherla, Neelima; Abello, Emmanuel; pete.constant@sanjoseca.gov
Cc: sfoti@harveyrose.com; malathy.subramanian@bbklaw.com; Michael_King@elcaminohospital.org; Ned_Borgstrom@elcaminohospital.org; Tomi.Ryba@elcaminohospital.org; peinarson@stanfordalumni.org; jzoglin@comcast.net; walles@stanford.edu; dwreeder@sbcglobal.net; Caligari, Gregory B.
Subject: El Camino Hospital District Comments on LAFCO Draft Report

Attached please find El Camino Hospital District's letter to the Santa Clara County LAFCO.

Thank you.

Andrew Sabey
Cox, Castle & Nicholson LLP
555 California Street, 10th Floor
San Francisco, CA 94104
Direct: (415) 262-5103
Main: (415) 262-5100
Fax: (415) 262-5199
asabey@coxcastle.com

El Camino Hospital® District

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June 22, 2012

BY EMAIL (.PDF)

Santa Clara County Local Agency Formation Commission
70 West Hedding Street
11th Floor, East Wing
San Jose, CA 95110
Attention: Chairperson Pete Constant and Honorable Commissioners
(Pete.Constant@sanjoseca.gov)

Re: Draft El Camino Hospital District Audit and Service Review

Dear Chairperson Constant and Honorable Commissioners:

This letter is being submitted by the Board of Directors of the El Camino Hospital District (the "District") regarding the May 23, 2012 *Draft El Camino Hospital District Audit and Service Review* prepared by Harvey M. Rose Associates, LLC (the "Report"). The District respects the Santa Clara County Local Agency Formation Commission ("LAFCo") and the important work that it does to ensure the efficient and effective provision of services in the County.

For reasons separately detailed in letters to LAFCo from the District's legal counsel, we urge LAFCo to not adopt the Report's recommendations regarding corporate restructuring of the District and the El Camino Hospital Corporation (the "Corporation"), or the Report's recommendations or findings regarding dissolution of the District.

However, the District welcomes the opportunity to collaborate with LAFCo and consider recommendations for how it could best serve the residents of the District and further increase transparency. With the assumption that the items described below are truly "recommendations" and not "mandates" being imposed on threat of requiring the District to give up control of the Hospital Corporation or face dissolution, we are submitting this letter in response to Commissioner Wasserman's request that the District provide feedback regarding the Report's recommendations under the subsection of the reported entitled "Maintain District Boundaries/Improve Governance, Transparency and Accountability" and summarized on Slide 34 of the slide presentation made by Harvey Rose at the LAFCo's May 30th meeting. The District's position with respect to each of these recommendations is discussed below.

A. Recommendation 1(a). Limit *automatic* contributions to Hospital Corporation for expenses other than debt service and capital improvements.

Items Already Implemented. All expenditures by the District to the Hospital Corporation for capital improvements for the Mountain View Hospital have been and will continue to be approved by the District Board at a public District Board meeting. District Resolution 2008-2 provides that certain District net tax cash receipts are transferred by District Board action to the Hospital Corporation to carry out the approved El Camino Hospital Community Benefit Plan, and that such funds are to be accounted for by the Hospital Corporation separately as District Board designated funds. Taxes and assessments for the District general obligation bonds for the Mountain View Hospital are not paid to the Hospital Corporation.

Will Consider. The District will consider, in conjunction with the District's consideration of the items described in Recommendation 1(c) below, the Report's recommendation that the District review its processes for District expenditures to the Hospital Corporation to ensure that such expenditures continue to be separately approved by the District Board at public District Board meetings and are not "automatically" transferred to the Hospital Corporation.

B. Recommendation 1(b). LAFCO to seek a legal interpretation of the Gann Appropriation Limit and its applicability to the District, and District to modify budgeting practices accordingly.

Will Consider. The Report recommends that LAFCo seek a legal interpretation of the applicability of the Gann Appropriations Limit (GAL) to the District. Presently, the District complies with the GAL and has done so for many years, and believes that to be the correct and prudent course of action unless and until a binding legal interpretation to the contrary is obtained. If LAFCo obtains a conclusive opinion from the California Attorney General's office that the GAL does not apply to the District, then the District agrees that this would eliminate certain restrictions on how District tax revenues are expended.

Disagree. The Report recommends that, if a legal determination is obtained that the GAL does not apply to the District, that the District should cease making expenditures of District tax revenues on capital improvement projects for the Mountain View Hospital and instead divert all District tax revenues to community benefits programs. All expenditures of the District for capital improvements have been and will continue to be approved by the District Board at a public District Board meeting. However, the District is not in a position to limit its discretion and commit that all future District tax revenues will only be spent on community benefits programs and not on other expenditures allowed under State law – any more than the City of San Jose or the City of Mountain View, who are also subject to LAFCo's jurisdiction, or any other governmental entity, could agree to limit future expenditures of tax revenues to only certain limited programs or purposes. In any event, it is unlikely that any such commitment could bind a future District Board.

C. Recommendation 1(c). Establish a competitive process for appropriating community benefit dollars, to ensure that funds are used to more directly benefit District residents.

Items Already Implemented. The District, through the Community Benefits Advisory Council which currently consists of 16 representatives and members of the District community, already has in place a rigorous process for identifying and selecting community benefit recipients. The current structure enables the District to administer a robust, strategic and metrics-based community benefits program that helps identify and serve the highest priority health needs in the District. The District conducts the program in a transparent and publicly accountable manner, that focuses on providing such benefits for the residents of the District.

Will Consider. The District will consider the Report's recommendation to establish a separate District account for District community benefits funds, and to distribute community benefits funds directly from the District account rather than distributing those funds through the Hospital Corporation. The District will also consider further broadening District community participation in the community benefits process.

Disagree. The District disagrees with the Report's suggestion that District community benefits funds are not already spent on programs that target and benefit District residents, and also disagrees with any implication that the District must establish some type of "wall" that would preclude community residents who may not live in the District from receiving any community benefits. We note that the Santa Clara County Board of Supervisors unanimously adopted a resolution on May 22, 2012 recognizing that the District provides "the most cost-effective, direct use of its funds to benefit the health of our community."

D. Recommendation 1(d). Implement changes to the budget process: clear articulation of financial, budget and reserve policies; budgeted and actual revenue/expenditures by purpose, program and line item; staffing and compensation; community benefit program expenditures, etc.

Items Already Implemented. The District already implemented processes to provide supplemental schedules in the consolidated financial audit that include itemized financial information describing the tax revenues and expenditures of the District, separate from the Hospital Corporation revenues and expenditures. In addition, separate unaudited financial information of the District is now prepared and presented to the District Board at its regularly scheduled Board meetings and is publicly available. The District also now publishes Community Benefits reports that segregate programs funded by the District from those funded by the Hospital Corporation. Also, the District already has reserve policies in place and the Report acknowledges that "[a]ll reserves presently maintained by the District and the [Hospital] Corporation are conservative and not excessive."

Will Consider. In furtherance of its commitment to open and transparent operations, the District will consider the Report's recommendation that the District continue to develop, and post on its website, supplemental schedules to the District's budgets and financial reports which will provide additional information that the public may find beneficial. The District will also consider actively soliciting public commentary on the reports it provides, both by creating a "comments" link on its website and by asking for public input at District Board meetings.

E. <u>Recommendation 1(e). Evaluate and report on professional services agreements</u>.

Items Already Implemented. The District currently receives various management, financial and operational services from the Hospital Corporation pursuant to the January 1, 1993 Management Agreement, which services are provided at the direction of the District Board. The District also receives professional services from a variety of other consultants.

Will Consider. The District will consider the Report's recommendation to review the District's professional services agreements with firms or individuals (including the Management Agreement with the Hospital Corporation) used by the District for services, to ensure that the District receives the administrative and legal support necessary to conduct business and appropriately differentiates between the District and the Hospital Corporation.

F. <u>Recommendation 1(f). Review and revise code of ethics and conflict of interest policies, to ensure the District avoids perceived or actual conflicts of interest</u>.

Items Already Implemented. The Hospital Corporation has already adopted a Conflicts of Interest policy and Code of Ethics policy. The District has also already adopted a Conflicts of Interest policy as required by applicable law, which was last updated in September of 2010. The District's Conflicts of Interest Policy adopts by reference the Model Conflicts of Interest Code set forth in Title 2, Section 18730 of the California Code of Regulations, including any amendments to the Model Conflict of Interest code subsequently adopted by the Fair Political Practices Commission. We note that this is the same Conflicts of Interest Policy that has been adopted by LAFCo.

Will Consider. The District will consider the Report's recommendation to review and, if necessary, update the District's Conflicts of Interest Policy. The District will also consider the Report's recommendation to review whether it is appropriate to have the District adopt a separate Code of Ethics policy in light of the significant requirements already applicable to the District as a public agency.

G. Recommendation 2. If the improvements described in Recommendation 1 cannot be accomplished by the District within 12 to 18 months of acceptance of this report, *or if the Corporation continues to purchase property outside of the District boundaries*, request that the District Board initiate changes to the governance structure. If such changes are not initiated within six months of the request for the governance change, begin actions toward dissolution of the El Camino Hospital District.

Disagree. For reasons separately detailed in letters to LAFCo from the District's legal counsel, the District strongly disagrees with the Report's mandates described in Recommendation 2, that if the items described in Recommendation 1 are not implemented within 12 to 18 months after acceptance of the Report -- or if the Hospital Corporation continues to purchase property outside of the District boundaries[1] -- the District must give up control of the Hospital Corporation or face dissolution.

As noted above, the District has already taken steps to implement many of the recommendations in the Report. As further discussed, there are other recommendations that the District is willing to consider, and the District is willing to report back to LAFCo on those matters no later than 12-18 months after LAFCo's approval of the District service review and audit as suggested by the Report, if the mandates are removed from the Report. However, the District also disagrees with certain of the recommendations in the Report.

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1 We note that Slide 35 of the of the slide presentation by Harvey Rose at the LAFCo's May 30th meeting describes this mandate somewhat differently than the Report, and focuses on eliminating the Hospital Corporation's right to provide "services beyond the District boundaries" instead of it's right to "purchase property outside of the District boundaries" as described in the Report. The District strongly disagrees with either formulation.

The District is always willing to consider recommendations for how it could best serve the residents of the District and further increase transparency. However, the District urges that LAFCo not take any actions that would mandate that the District give up control of the Hospital Corporation or face dissolution if the Report's recommendations are not implemented, especially given that the Report acknowledges that the District and Hospital Corporation are currently operating in accordance with applicable requirements of State law, and are achieving strong, positive results under the current structure.

John L. Zoglin
Board of Directors, El Camino Hospital District

Wesley F. Alles
Board of Directors, El Camino Hospital District

David Reeder
Board of Directors, El Camino Hospital District

Patricia A. Einarson, MD

Patricia A. Einarson, M.D., M.B.A.
Board of Directors, El Camino Hospital District

cc: (by email)
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File No. 62721

June 22, 2012

VIA E-MAIL (.PDF)

Santa Clara County Local Agency Formation Commission
70 West Hedding Street
11th Floor, East Wing
San Jose, California 95110

Attn: Chairperson Pete Constant and Honorable Commissioners
(Pete.Constant@sanjoseca.gov)

Re: **Draft El Camino Hospital District Audit and Service Review**
May 30 Santa Clara County LAFCO Meeting, Agenda Item No. 7

Dear Chairperson Constant and Honorable Commissioners:

As a litigation partner at Cox, Castle Nicholson, I have been engaged by the El Camino Hospital District (the "District") in anticipation of the potential need to challenge LAFCO's proposed actions related to the May 23, 2012 *Draft El Camino Hospital District Audit and Service Review* prepared by Harvey M. Rose Associates, LLC (the "Report").

This letter serves to supplement the District's May 29, 2012 comment letter on the Report and its legal infirmities, which is attached to this latter as Exhibit A.[1] The District will continue to monitor LAFCO's actions and responses leading to the August 1, 2012 scheduled hearing. Unless the threat of dissolution and dissolution findings are removed from the Report, the District will have no choice but to protect its rights and enumerated powers in a court of law.

The Report is legally deficient, in part, due to its inclusion of mandates that are beyond the jurisdiction of LAFCO to impose. LAFCO staff presenting a service review that includes such threats and premature findings is troubling. LAFCO will act arbitrarily and capriciously and without substantial evidence if it adopts the Report as currently presented. The Report's singular focus on Harvey Rose's tax advocacy, rather than the actual benefits derived from the District, results in the Report failing as an informational document. It is unclear why the District is being subject to unequal treatment as compared to other special districts or why LAFCO has spent the same amount on the District's service review as it intends to spend in total on the service review for all other

1 Also, for LAFCO's convenience, we have attached the District's initial comments made as part of the May 15, 2012 exit conference with Harvey Rose and LAFCO staff as Exhibit B.

special districts in the County. We have identified the following legal infirmities of the Report in addition to those identified in the District's May 29 letter.

1. The Report's Dissolution Findings are Incompatible with the District's SOI and Therefore Are Unlawful

The dissolution findings are a determination related to a change of organization. "Determinations [about changes of organization] shall be consistent with the spheres of influence of the local agencies affected." Government Code § 56375.5; *Placer County LAFCO v. Nevada County LAFCO* (2006) 135 Cal.App.4th 793, 807. Dissolving the District would require an SOI of no territory as that would be LAFCO's "plan for the probable physical boundaries and service area of" the District. Gov. Code § 56076. Thus, LAFCO would be required to at least concurrently revise the SOI of the District with adoption of the Report. No such action is proposed, analyzed or even justifiable, thus the dissolution findings are unlawful.

2. The Report's Dissolution Findings are Not Based on Substantial Evidence

a. Public Service Cost

Government Code section 56881(b)(1) requires LAFCO to find that the "[p]ublic service costs of a proposal that the commission is authorizing are likely to be less than or substantially similar to the costs of alternative means of providing the service." The Report concludes that if the District is dissolved, a successor agency would assume remaining debt and that it can be presumed the Hospital Corporation would continue to operate the Mountain View Campus, thus the public service cost would be substantially the same. This finding is fatally flawed in several respects.

First, as the Report acknowledges, "community benefits could potentially decline, unless the Corporation chose to continue contributing at current or increased levels from other sources of funds." Report at 6-8. The Report presents no evidence that the Hospital Corporation would fund a similar community benefits program as the District. Without substantial evidence of alternative funding, the only permissible conclusion is that health care service costs will increase due to the loss of millions of dollars of community benefit funding every year for the foreseeable future. The Report provides no analysis of the specific programs funded by the District, the ability of the users of the programs to pay for such services, or the increased cost for comparable services resulting from the loss of District funding.

Instead of substantial evidence, the "support" for the Report's finding consists of non-sequiturs. For example, the Report states that if the District is dissolved, District residents would no longer be paying taxes to support the operations of the Hospital. Report at 6-8. This is irrelevant to whether health care service costs will decrease or remain the same and ignores that District residents' tax bills would not change. The Report also states, as support for the finding, that property tax receipts would be reapportioned to other jurisdictions to support police, fire, schools and other services. These jurisdictions have no obligation to use the tax funds to support health care services. Eliminating millions of dollars supporting health care services would result in a corresponding increase in health care service costs.

The finding is also deficient because the Report does not attempt to analyze or quantify the transactional costs of dissolving the District and whether those transactional costs could be recouped over time to avoid increased service costs. The Report acknowledges that the "separation of the [District and Hospital Corporation] and disposition of assets and liabilities would be complex." Report at 6-10. Yet, no cost-benefit analysis was undertaken to determine if the transactional costs associated with dissolution would support the section 56881(b)(1) finding. By contrast, it is exactly this analysis that LAFCO appears to be undertaking for the Saratoga Fire Protection District *before* LAFCO makes potential findings supporting dissolution. See *RFP Special Study Impacts of the Potential Dissolution of the Saratoga Fire Protection District.* Without the sort of study LAFCO is performing for the fire protection district, LAFCO has an inadequate record to determine that dissolving the District will result in lower or substantially similar health care service costs. LAFCO cannot properly adopt findings supporting dissolution when the Report it relies upon as substantial evidence offers no evidence, but instead concludes that there are outstanding issues that "should be considered and resolved prior to initiating the dissolution." Report at 6-9. The Report puts the cart before the horse. If Dissolution findings could ever be made, they would have to follow a proper analysis of the potential impacts of dissolution.

b. Promoting Public Access and Accountability

Government Code section 56881(b)(2) requires a LAFCO to find that a "change o[f] [*sic*] organization or reorganization that is authorized by the commission promotes public access and accountability for community services needs and financial resources." As the District previously pointed out, in its May 29th letter, the Report simply states that if there were no longer a District then public access and accountability would be moot. Report at 6-9. This ignores whether dissolution would *promote* public access and accountability. It nullifies the requirement to make such a finding, effectively stripping it from the statute—*any* LAFCO could make the same finding to dissolve *any* agency without consideration of *any* agency-specific facts. The Report's findings are arbitrary. The Report must analyze the public access and accountability of the successor agency and compare it to the District and disclose the loss of public access or accountability of the Hospital Corporation (which provides "community service needs") if it is no longer subject to the Brown Act. The District proffers that the result of such analysis will be that the required section 56881(b)(2) finding cannot be made. On the current record there is no factual basis to support the finding proposed by the Report.

3. The Report's Determinations and Findings Are Not Based On Substantial Evidence

The determinations and findings in a service review "must be adequate to bridge the gap between raw data and the final conclusion about the status or condition of the municipal service under review." OPR Guidelines at 44. The Report contains numerous errors in logic that fail to bridge the gap between the data and its conclusions and lacks substantial evidence to support its conclusions.

a. The Report Contains Factual and Legal Inaccuracies

The Report continues to contain numerous factual errors:

(1) It is factually inaccurate that the District receives twice as much tax as the third highest district hospital. Compare Report at iii and 3-3 with Figure 3.1.

(2) The Report misstates the occupancy percentages for the County and the Mountain View Campus. Compare Report at xiv and 5-21 with Table 5.5.

(3) The Report inaccurately implies that health care district powers that existed since at least 1982 were created in 1994. See Report at 3-1, 3-4.

(4) At the District's exit conference, the District inquired if the Report's use of Medi-Cal Inpatient days as a percentage of total inpatient days has ever been used as a metric in a health care district service review. The published Report does not clarify whether this is an appropriate metric based on any published guidance. *See* Report at 3-7. The District believes it to be a misleading metric because it does not control for the demographics of a health care district's residents. The continued lack of citation in the Report leads the District to believe this metric is unprecedented.

(5) The Report incorrectly states that the Hospital Corporation's CEO does not have voting rights. *See, e.g.,* Report at 4-2 n. 2.

(6) The Report falsely states the District Board took action related to the Hospital Corporation's Los Gatos Hospital transaction. Report at 4-12.

(7) The Report continues to misquote IRS Code section 501(c)(3) as a result of relying on secondary sources rather than the code itself. Report at 4-17.

(8) The Report continues to use the metric of discharges per 1,000 population despite the District pointing out the more robust and commonly used metric of inpatient days per 1,000 population. Report at 5-6. The Report's metric does not account for the increased length of inpatient stays resulting from an aging populace.

(9) The Report misstates the law by arguing that activities of the Hospital Corporation are activities of the District. *See, e.g.,* Report at 5-18.

(10) The Report continues to make the conclusory argument that –even though the District's activities are lawful – the District's activities are incompatible with the intent of the law. Report at 5-19.

(11) The Report continues to demonstrate bias rather than providing a neutral recital of facts. For example, the Report states that the District and Hospital Corporation's community benefit program "merely" falls within the range of other districts. Report

at 6-2. The use of "merely" attempts to paint the District in a negative light, rather than the Report making a neutral statement that the District's community benefits are within the range of the benefits provided by other districts, which weighs against, rather than for, dissolution. Likewise, the Report states that the District "only" contributed $5.1 million towards community benefit programs in the last fiscal year. Report at 6-2. This figure represents nearly 100% of the District's funds not restricted by the Gann Limit. This is a remarkable level of efficiency and support despite the Report's choice of adjectives. LAFCO should recognize the stellar management of the District's community benefit program given the Gann Limit constraints.

(12) The table on Report page 6-5 continues to ignore all disadvantages resulting from a change in governance. These include losing public control of the Hospital Corporation, the end of funding for current grantees, and increased overhead costs.

(13) The Report inaccurately states that the District made the Hospital Corporation's "general surplus" contributions and supported the Hospital Corporation's "general operations." Report at 6-8. The audit was clear that these funds supported the hospital replacement project.

(14) The Report contains inconsistent data on the number of Hospital Corporation beds. *Compare* Report at Table 5.1 (285) *with* Table 5.5 (268).

b. The Report's Conclusions Regarding Los Gatos and The District's Dialysis Centers Are Not Based on Substantial Evidence

The Report concludes that "[g]iven the geographical distance of the Los Gatos Hospital to the District, the extent to which the acquisition meets the voters' original intent or the purpose of the State law is questionable." Report at 5-19. The Report also states that the opening of the Los Gatos Hospital "is wholly inconsistent with the intended purpose of the District." Report at 6-1. These conclusions are mere assertions without any evidence and are inconsistent with the underlying facts.

Among other things, these conclusions contradict the Report's own acknowledgement that "[a]n emphasis in the law on populations or communities 'served' by a healthcare [*sic*] district, rather than populations residing within district boundaries, have generally been interpreted to allow health care districts to extend their influence *well beyond jurisdictional territory*." Report at 5-16 (emphasis added.) The Report also states the District's enabling legislation "does not restrict services to a specific territory and, instead, allows health care districts to serve individuals who reside outside of the district boundaries and in other parts of the region, state, or even nation." Report at 5-2. Thus, the Report's conclusion that the operation of the Los Gatos Hospital by the Hospital Corporation is questionable due to its distance from the District's boundaries is baseless. The same is true for the Report's conclusion that the District's operation of two dialysis centers for over 20 years outside District boundaries raises the same concerns as the Hospital Corporation's operation of Los Gatos Hospital. Report at 5-9. The District has the authority to provide services outside its boundaries. There is nothing "questionable" about it. The District serving people both within and outside the District's boundaries is consistent with the law and with the services other health care districts provide in California. See *El Camino Hospital District Information Re: Local Health Care Districts as Requested by Santa Clara LAFCO, November 4, 2011* (attached hereto as Exhibit C).

c. The Report's Conclusion Regarding the Intent of Health Care District Law is Without Foundation

The Report states that, based on the District's status and good financial management, "it is clear that the intent of the [Health Care District] law is no longer applicable" to the District. Report at 6-2. Further, "[w]hile the law has been amended several times to broaden the scope of health care services that may be provided, the findings in this report demonstrate that, the continued contribution of taxpayer resources to this function are no longer justified or required." Report at 6-2 to 6-3. This conclusion is contrary to law and not based on substantial evidence. This political assertion is simply not an element of the Cortese-Knox-Hertzberg Law, tax law or the District's legal underpinning. It appears that the Report was drafted to meet a preordained conclusion that is beyond LAFCO's jurisdiction.

The Report fails to address the amendments to the Health Care District Law, made before the formation of the District, that demonstrate the legislative intent to permit health care districts to operate in non-rural settings. The Report fails to show how the District no longer meets the intent of its enabling legislation. The Report's statements are conclusory, illogical and unsupported by the very statutory law upon which it relies.

The Report's statement that the taxpayer support for the District is no longer justified or required conflicts with the Report's conclusion that the District is in full compliance with the law both in its financial reporting and the provision of its services. There is no logical connection between the Report's conclusion that the District is in compliance with the law and its conclusion that taxpayer support to the District is no longer justified or required. The Report appears to be subverting the will of the voters of the District and making value judgments about tax policy that are reserved for the Legislature. So long as the District complies with its enabling legislation or until the District ceases to exist as a result of a vote of the people, taxpayer support is both justified and required.

d. The Report's Conclusion that The District Losing Control of the Hospital Corporation Would Increase Accountability and Transparency Is Not Based On Substantial Evidence.

The Report concludes that removing the District from its role in Hospital Corporation governance would allow for greater transparency and accountability. Report at 6-5. No substantial evidence supports this conclusion. Currently, all board meetings of both the District and Hospital Corporation are subject to the Brown Act. The Report fails to explain how removing the District as the sole voting member of the Hospital Corporation will increase the District's transparency or accountability. The actions of the two boards are already distinct as shown by the separate meetings, agendas, minutes, and actions. As noted in the District's May 29th comment letter, the mandated governance change[2] would likely lead to the Brown Act no longer applying to the Hospital Corporation which would result in the public having less information and control over the vital services provided by El Camino Hospital. The governance change would result in the Hospital Corporation becoming private and no longer controlled by elected officials that must be responsive to their constituents interests. The Report's analysis of transparency and accountability is baseless.

e. The Conclusion that Expanding the District's Boundaries Would Not Result In a Greater Level of Service to District Residents Is Not Based On Substantial Evidence

The Report concludes that "[i]f boundaries were expanded, the District would receive more in property tax but would not necessarily provide a greater level of service to District residents." Report at 6-6. This conclusion is contradicted by the Report's underlying data. The Report states that 38% of the Mountain View Campus patients are from areas in Santa Clara County outside of District boundaries. Report 5-10. Thus, any programs funded by the District at the Mountain View Campus would necessarily serve more District residents if the District's boundaries were expanded to include all of Santa Clara County. Even expanding District boundaries to include all of its current SOI would necessarily result in the District serving over 3,000 more District residents if the patients tabulated in Table 5.11 participate or were benefited by District funded programs (which include capital improvements to the hospital itself). The Report's conclusion lacks any basis in fact.

Further the entire premise of this analysis is faulty. Harvey Rose's position seems to be that non-taxpayers should not receive taxpayer supported services. This ignores how government works. Non-residents use local parks, streets, water, sewers, and almost all government supported services regardless of whether they have contributed money toward those services or facilities. A health care district should not be singled out for differential treatment.

f. The Conclusion that the Audit was Unable to Distinguish between District and Hospital Corporation Funds is False

The Report concludes that the "audit was unable to draw a clear distinction between Corporation income and District funds that allowed the Corporation to accumulate surplus net assets sufficient to acquire Los Gatos Hospital." Report at 6-9. This conclusion is false and not based on substantial evidence. The audit concluded the District "did not directly fund the purchase, operations or maintenance of the $53.7 million Los Gatos Hospital." Report at 4-20. The audit was able to clearly track every dollar of District funds. Report at 4-20 to 4-21. The audit concluded

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2 Any argument by LAFCO that the mandated governance change is only a "recommendation" would be specious. The Report itself states that "it may be prudent to initially allow the District to attempt reforms before taking the step of *requiring* modifications to the governance of the two entities." Report at 6-5. Further, the California Supreme Court has restated the accepted principle that a "choice" that, if not made, results in dissolution is not a choice at all. *California Redevelopment Association v. Matosantos* (2012) 53 Cal.4th 231, 270 ("A condition that must be satisfied in order for any redevelopment agency to operate is not an option but a requirement.")

that "[a]ll of the District's revenues, including property tax, interest earnings, and lease payments are separately accounted for in the financial system . . .[and] are tracked and monitored through the use of separate accounts." In response to LAFCO's question of whether District funds are commingled with Corporation funds, the audit concluded "No." Report at 4-21. There is no evidence to support the Report's conclusion that the "audit was unable to draw a clear distinction between Corporation and income and District funds." All evidence in the record contradicts this conclusion.

g. The Determination on The Scope of District Services is Inadequate

i. The Report Does Not Disclose District Community Benefit Recipients that Operate within the District

The Report purports to include a determination of the "nature, location, and extent of any functions or classes of services provided by the existing district." Report at 5-22. The Report's entire determination, however, focuses solely on the operations of the Hospital Corporation. This discussion is inadequate because it contains no discussion of the separate functions or services provided by the District. The District provided Harvey Rose and LAFCO staff with substantial data, not only that which was requested but additional data and relevant information, including, for example, a table listing all District community benefit grant recipients, many of which provide services within the District but not at the Mountain View campus. The Report does not even include this list, let alone discuss the substantial data presented to Harvey Rose or describe these recipients in the body of the document. The Report fails to provide an accurate summary of the District's operations.

ii. LAFCO Improperly Conducts a Service Review of the Hospital Corporation

The Report's service review and governance change recommendations in large part focus on the Hospital Corporation rather than the District. LAFCO has no authority over the Hospital Corporation because it is not a local agency. Thus it is improper for LAFCO to conduct a service review of the Hospital Corporation's operations or making governance change recommendations based on activities of the Hospital Corporation.

iii. The Report Does Not Disclose the Benefits Received from the District Serving Non-Residents

Further, the determination, and the Report as a whole, lacks any analysis of the benefits to District residents of providing services to non-residents. More than 50 years ago, El Camino Hospital was established as part of the District as an "enterprise," meaning that the Hospital was expected to provide high quality medical care to patients and manage the business as a primarily self-supporting entity.

Because the hospital is as an enterprise it was anticipated to serve both those within and without the District's boundaries, and it is specifically permitted by statute to do so. Nevertheless, the bond referendum that built the first hospital was passed by residents of the District without any restriction on non-District residents access to the hospital. More recently, the voters of the District once again passed a bond measure with an emphatic level of support, over 70% of the vote, to fund the new Mountain View Hospital in response to the State's unfunded seismic mandate. District voters fully understood when passing this measure that non-District residents would continue to use the new, seismically safe, hospital. As explained below, non-resident use of the hospital benefits District residents.

Broad use of the services enables the District to have a larger hospital (if it served only District residents it would shrink considerably) with more sophisticated medical and information technology, and more physicians, especially those who are Board certified in specialty areas of medicine. This means that District residents receive a higher level of care than would be possible if the Hospital did not serve out of District patients. Further, the Hospital Corporation's operation of the Los Gatos Campus has provided District residents access to better orthopedic spine, rehabilitation and urology care because the size of the enterprise supports a higher level and greater variety of services than would have existed without Los Gatos. Residents of the District benefit from the ability of the District and the hospital to operate in a more competitive manner. Many of the costs of the hospital are fixed, and spreading those fixed costs over a greater number of services, reduces the per unit cost thereby increasing efficiency. The Report's lack of analysis of the benefits District residents obtain from the District and Hospital Corporation is a disservice to the public and LAFCO.

4. The Report Fails to Comply with OPR Guidance.

In 2003, the Governor's Office of Planning and Research ("OPR") published the *Local Agency Formation Commission Municipal Service Review Guidelines* ("OPR Guidelines") to assist LAFCOs "to fulfill their statutory responsibilities of promoting orderly growth and development, preserving the state's finite open space and agricultural land resources, and working to ensure that high quality public services are provided to all Californians in the most efficient and effective manner." The Report fails to follow the OPR Guidelines in several respects.

a. If Adopted, the Report Would Lead to Inconsistent Treatment of Local Agencies.

The OPR Guidelines state that "[c]onsistency should be a primary goal in LAFCO's review of municipal services, not only for the benefit of LAFCO and its staff, but also for other stakeholders who will routinely be involved in the municipal service review process." OPR Guidelines at 17. Here, LAFCO has directed Harvey Rose to make a hybrid report of an audit and service review. Further, the District appears to be the only local agency analyzed in a separate service review from all other local agencies with spheres of influence in Santa Clara County. One telling piece of evidence that the District is being treated differently from all other districts in Santa Clara County is that LAFCO authorized Harvey Rose to spend $70,000 on the Report while LAFCO will only spend $70,000 total on the service reviews for 17 other special districts. *LAFCO RFP for Service Review of Special Districts in Santa Clara County* at 2, Attachment A at 4 (identification of special districts). This is not consistent treatment. The differential treatment is not justified by the results of the service review.

b. **The Service Review Was Not Cooperatively Developed**

The OPR Guidelines urge the cooperative development of service reviews because they "enable LAFCO and service providers to more effectively accomplish mutual public service objectives" and provides a long list of the benefits of collaboration with local agencies. OPR Guidelines at 7. The Report instead was developed through a formal audit, a combative consultant (by an auditor/consultant who appears to have no prior experience with an MSR review), and seeks to implement changes at the District through threats rather than shared goals and incentives. LAFCO's unilateral approach has greatly increased the cost of the District's review to both the District and LAFCO and, if the Report is not revised to remove its unlawful mandates, will result in even costlier litigation. The District would much prefer a cooperative approach with LAFCO in developing creative approaches to improving the effective and efficient delivery of health care services.

c. **The Report Fails to Acknowledge that LAFCO Lacks Jurisdiction to Manage the District**

The OPR Guidelines state that LAFCO "is not enabled to manage or operate a service provider." OPR Guidelines at 7. The Report ignores the District's discretion on how to manage its own affairs and instead mandates specific management decisions such as what are allowable uses of its funds and how community benefit beneficiary decisions should be made. That such mandates are beyond LAFCO's jurisdiction is made clear by the failure of AB 2418 to make it out of committee. That bill would have given LAFCO approval authority over any health care district community benefit expenditure that was not on a statutorily enumerated list. It also would have required a specific percentage of health care district revenues be applied to community benefit. The bill was successfully opposed by health care districts who:

> cite their unique circumstances in terms of geography, resources, community role, and day-to-day operations to demonstrate this bill will impact their ability to deliver services. Many districts believe the bill is unworkable. For example, Grossmont Healthcare District in La Mesa indicates it is one of a few districts with voter-approved bonds financing significant improvements at the publicly-owned hospital, and appropriately spends a significant portion of their revenues to administer bond-related activities.

Assembly Committee of Appropriations May 16, 2012 Bill Analysis. The Assembly Committee on Local Government May 9, 2012 bill analysis recommended the committee consider "District boards are voter-elected and have been entrusted to determine the appropriate health care services to be provided by the health care district. The author may wish to consider whether it is appropriate to grant LAFCO the authority to determine 'community health care benefits.'" Thus, the Local Government Committee staff questioned the appropriateness of interjecting LAFCOs into the community benefit decision-making process. The Report ignores this caution and seeks to invade the District's discretion and expertise on how to best provide community benefits. The bill is not law and the Report's attempt to back-door such powers and restrictions is unacceptable.

d. The Dissolution Findings Are Improper Because No Concurrent Dissolution Action is Under Consideration

The Report proposes to make the dissolution findings long before the dissolution of the District is even agendized. This has resulted in an inadequate record and the failure to disclose the repercussions of District dissolution. These include the substantial costs in winding down the District, the increased cost of health care, and the risk of the loss of local control of El Camino Hospital by its potential acquisition by a large service network. This is contrary to OPR Guidance which anticipates a full record be developed before any action is taken. OPR Guidelines at 23.

The approach taken in the Report to make dissolution findings before analyzing the repercussions of that action is not only inconsistent with law and public policy, but also inconsistent with the approach taken by LAFCO with the Saratoga Fire Protection District. In that case, the Saratoga Fire Protection District's service review concluded that the district could be dissolved and consolidated with the CCFD, which would result in eliminating district administration costs." *2010 Countywide Fire Service Review*, at 171. However, unlike the Report, no premature dissolution findings were made. Instead, LAFCO has chosen to undertake a more thorough process with the Saratoga Fire Protection District, issuing an RFP "to prepare a special study on the impacts of the potential dissolution of the Saratoga Fire Protection District . . . The study will be used to inform LAFCO's decision on whether or not to initiate dissolution of the SFD . . . ." *RFP Special Study Impacts of the Potential Dissolution of the Saratoga Fire Protection District*, at 1. The Saratoga RFP is clear that the study is "necessary" for LAFCO to make the dissolution findings required by Government Code section 56881. No such study was done here, yet Harvey Rose asks the LAFCO to adopt dissolution findings through the Report prematurely and before LAFCO or the public has any informed understanding of the repercussions of such action. This is reckless, unequal and unlawful treatment.

e. The Report's Analysis of Transparency Fails to Follow Established Metrics

The Report's determination regarding Government Accountability focuses on the relationship between the District and Hospital Corporation boards and how the current governance structure, though fully compliant with State law, allegedly blurs the distinction between the two entities. Report at 5-21 to 5-22. The Report's focus on the governance structure is not supported by the OPR Guidelines. The OPR Guidelines contain tables of factors that a LAFCO may wish to consider related to making a service reviews determinations. OPR recommends that a service review look at the services provided, public outreach, public participation, election process, accessibility of meetings, public access to budgets and similar considerations when "evaluating an agency's local accountability and governance structure." OPR Guidelines at 42. None of these factors supports a LAFCO mandate to change an agency's governance structure which is fully compliant with State law.

f. The Report's Mandates Ignore the Purpose of a Service Review

Service reviews are "information tools that can be used by LAFCO, the public or local, regional and state agencies based on their area of need, expertise, or statutory responsibility."

OPR Guidelines Appendices at 19. The OPR Guidelines contain a list of how service reviews can be used. The purpose includes to "[l]earn about service issues and needs . . . Develop a structure for dialogue among agencies that provide services . . . Provide ideas about opportunities to streamline service provision . . . [and d]evelop strategies to avoid unnecessary costs, eliminate waste, and improve public service provision." OPR Guidelines Appendices at 16-17. In sum, a service review may contain recommendations that an agency, employing its expertise, can take under consideration. Nothing in the OPR Guidelines supports using a service review, which is an informational document, to impose mandates on a local agency as done in the Report. The Report itself seems to acknowledge LAFCO's limited authority when its states that a service review in intended to support an SOI change, or in some instances, a boundary change. Report at 6-3. The Report's summary of the Cortese-Knox-Hertzberg Act does not allude to any authority to impose mandates.

5. **The Report is Not Consistent with Santa Clara's LAFCO's Own Policies**

LAFCO adopted its own service review policies in 2002 and amended those policies in 2009. The Report fails to follow LAFCO's policies in several ways.

LAFCO's policy states that a service review in intended to:

- Obtain information about municipal services in the geographic area,
- Evaluate the provision of municipal services from a comprehensive perspective, and
- Recommend actions when necessary, to promote the efficient provision of those services.

Santa Clara LAFCO *Service Review Policies*, at 1. Thus, like the OPR Guidelines, LAFCO's own adopted policies recognize that a service review is not a tool to be used to impose mandates on a local agency. LAFCO's policies go on to state that a service review will "study" and "evaluate" governmental structure alternatives and operations efficiencies. *Service Review Policies* at 6; see also *LAFCO Service Review Project* (April 24, 2002) at 2 ("Service reviews will serve as information tools . . . to . . . [p]rovide ideas about different or modified government structures.) LAFCO's policies do not support the imposition of mandates on the District.

Also like the OPR Guidelines, LAFCO's policies encourage collaboration with service providers. *Service Review Policies* at 3. Such collaboration was absent in the preparation of the Report.

6. Conclusion

The District requests that LAFCO correct the manner errors and inaccuracies in the Report and that LAFCO not adopt the Report's mandates related to governance structure on threat of dissolution or the Report's unsupported dissolution findings.

Sincerely,

Andrew B. Sabey

Attachments
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EXHIBIT A

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May 29, 2012

File No. 62721

BY EMAIL (.PDF)

Santa Clara County Local Agency Formation Commission
70 West Hedding Street
11th Floor, East Wing
San Jose, CA 95110
Attention: Chairperson Pete Constant and Honorable Commissioners
(Pete.Constant@sanjoseca.gov)

Re: Draft El Camino Hospital District Audit and Service Review
May 30 Santa Clara County LAFCo Meeting, Agenda Item No. 7

Dear Chairperson Constant and Honorable Commissioners:

I am writing on behalf of the El Camino Hospital District (the "District") regarding the May 23, 2012 *Draft El Camino Hospital District Audit and Service Review* prepared by Harvey M. Rose Associates, LLC (the "Report").

Given the short amount of time between the public release of the Report and the May 30th LAFCo hearing, this letter is intended to present several of the District's higher level comments. We reserve the right to submit a more detailed comment letter prior to the expiration of the public comment period regarding this matter.

The District strongly disagrees with the Report's recommendations to have District residents give up control of the Mountain View Hospital and to begin actions towards dissolving the District if the recommended changes, that would limit the District's authority to provide its health care services, are not implemented, especially given that the Report acknowledges strong, positive results achieved under the current structure. The mandates in the Report related to the control, management and potential dissolution of a governmental agency appear unwarranted given no finding of impropriety is made related to the governance structure or finances of either the District or the El Camino Hospital Corporation (the "Hospital Corporation") related to the acquisition of the Los Gatos campus, or otherwise. Indeed, the Report finds that the Hospital Corporation is a "successful organization in a thriving healthcare market," that provides "a vital healthcare service in the community" and that the District has demonstrated "an ability to contain costs and improve[] financial performance." The Report also concludes that the District and the Hospital Corporation are "performing well" and in "good to excellent, as well as stable" financial condition. The recommendation to upset the current governance of the District and the Hospital Corporation, including the possible dissolution of the District, and the conclusion that continued contribution of taxpayer resources to the District are no longer justified, make no sense given these findings.

The following is a summary (discussed in more detail below) of our initial concerns with the Report:

- The Report fails to present information in a neutral manner and omits information that demonstrates the benefits the community derives from the District.
- The Report ignores the clear an unambiguous language of State law when it implies that the District's transfers to the Hospital Corporation may be unlawful.
- The Report ignores the corporate separateness of the District and the Hospital Corporation.
- The Report places no value on the public control of the Mountain View Hospital and would have LAFCo mandate that this vital asset to the community become private even though the Report concludes the current governance structure complies with State law.
- The various proposed mandates put forward by the Report are beyond LAFCo's authority. Rather than promoting orderly development and efficient and affordable service delivery, the Report advocates substituting the opinion of LAFCo over that of a publicly elected decision-making body in a ı area wholly outside LAFCo's expertise – the provision of health care services. The Report asks LAFCo to abrogate the enumerated powers of the District under the Health & Safety Code to determine what is in the best interests of the District and the people served by the District.
- The Report's dissolution findings are unlawful and unwarranted.

1. **The Report Advocates Rather than Discloses.**

We have concerns that facts are not presented in a neutral manner as would be expected in a service review or audit. For example the Report repeatedly states that the District does not "distinguish itself." The relevant metric for service reviews under the Cortese-Knox-Hertzberg Act is "effective or efficient service delivery." Gov Code § 56430(a)(7). Given that the Santa Clara County Board of Supervisors unanimously adopted a resolution on May 22, 2012 (the "County Resolution") stating that the District provides "the most cost-effective, direct use of its funds to benefit the health of our community," it is unclear what standard Harvey Rose expects the District to meet to avoid the loss of control of the Hospital Corporation or dissolution.

Setting aside the disagreement between Harvey Rose, on one hand, and the District and the County, on the other hand, regarding whether the District does distinguish itself, ultimately whether the District distinguishes itself is criticism that does not further the analysis of whether the District provides efficient or effective benefits to the community. The lack of neutrality of the

Report is also apparent in its failure to enumerate the highly valuable and effective community benefit programs funded by the District and the awards both the District and the Hospital Corporation have received for their service to the community.

The report details pages of community benefit standards applicable to health care districts or not-for-profit hospitals (Report at 4-15 to 4-18) and finds that the District and the Hospital Corporation comply with these standards. Report at 4-18. Yet, Harvey Rose finds that based on metrics that, to the District's knowledge, have never been used in another health care district service review, that the District does not distinguish itself. Report at 4-19. Harvey Rose uses this conclusion to support the loss of public control of the Hospital Corporation and dissolution of the District. Report at 6-10. Given that all of the District's community benefit programs would be put at risk if LAFCo adopts the draft Report, the District feels it is important for LAFCo and the public to be aware of the vital services the District provides to those that would otherwise have inadequate access to health care. We have attached a table of the District's community benefit program recipients from FY09 through FY11, all of which serve District residents, as well as a copy of the text of the County Resolution, so that LAFCo and the public have a better understanding of some of the benefits the District provides to its residents.

2. The Report Incorrectly Implies that the District Violated Heath & Safety Code Requirements.

The 1992 transactions between the District and the Hospital Corporation described in the Report transferred assets greater than 50% of the District assets to the Hospital Corporation in compliance with the applicable requirements of Health & Safety Code section 32121(p). The provisions of the Health & Safety Code that the Report asserts may have been violated (*see* Report at 4-11) were added during the 1991-92 regular session and the 1993-1994 regular session of the State Legislature (including the voter approval requirement for district transfers of 50 percent or more of the district's assets referred to in the Report). These changes do not apply to "[a] district that has discussed and adopted a board resolution prior to September 1, 1992, that authorizes the development of a business plan for an integrated delivery system." Health & Safety Code § 32121(p)(4)(A). The District had discussed and adopted a board resolution prior to September 1, 1992 that authorized the development of a business plan for an integrated delivery system. As a result, with respect to transfers between the District and the Hospital Corporation, the District is exempt from the changes to section 32121(p) made between 1991-1994. Health & Safety Code § 32121(p)(4)(A). The Report seems to second guess the State Legislature by stating "it is unclear why the Legislature would exempt the District from such an important provision." Report at 4-11. Harvey Rose's skepticism does not justify ignoring the plain language of State law. The District is exempt under the clear and unambiguous language of Health & Safety Code section 32121(p)(4)(A). Recognizing this exemption, the District fought to ensure that transfers of assets by the Hospital Corporation would be subject to voter approval by requesting and obtaining the enactment of Health & Safety Code section 32121.7.

3. The Report Discounts the Corporate Separateness of the District and the Hospital Corporation.

The Report repeatedly recognizes that the District and the Hospital Corporation are separate legal entities. Indeed, State law permits the governance structure used by the District and the Hospital Corporation, and specifically recognizes the District and the Hospital Corporation as separate legal entities. (*See, for example,* Health & Safety Code § 32121.7). However, the Report essentially ignores that fundamental legal distinction, and states that "any activities of the [Hospital] Corporation are, by extension, activities of the District" (Report at 5-9) and repeatedly states that the District and the Hospital Corporation are indistinguishable from a governance and financial perspective. This is a fundamental inconsistency in the Report that is not legally defensible. The District agrees that consolidated financial statements for the District and the Hospital Corporation are required by accounting practices and are a standard for financial reporting for government agencies and others. However, from a legal and governance standpoint, the District and the Hospital Corporation are separate and distinct entities. There is no basis to penalize or mandate business decisions when the District is complying with the law.

4. Mandate to Change Corporate Structure Would Decrease Transparency, Public Accountability and Efficiency.

The Report contains no substantiated finding that the changes recommended by the Report would result in greater accountability for community service needs. Indeed, we believe the proposed changes would actually *decrease* transparency, public accountability and efficiency. The recommended changes to the Hospital Corporation's Board would insulate it from community control as it would no longer consist of a majority of publicly *elected* board members who must be responsive to their constituents. Further, the recommended changes could result in the Brown Act no longer applying to Hospital Corporation Board meetings, which would result in reduced transparency related to Hospital Corporation operations and management, and the elimination of the requirement that that the audit of Hospital Corporation finances be made publicly available.

From the District's exit interview with Harvey Rose it was clear that, in Harvey Rose's view, the loss of public control of the Hospital Corporation is not a LAFCo concern, thus any loss of transparency or public access to the Hospital Corporation itself is irrelevant to its recommendations. LAFCo's consultant may not consider it important that the District, and therefore ultimately the voters of the District, control the Mountain View Hospital – but the District values that greatly, and believes that the voters of the District do as well.

5. The Report is Not Consistent with the Cortese-Knox-Hertzberg Act.

a. LAFCo is an Agency With Limited Authority.

LAFCo is an agency with specific, enumerated, powers. Gov. Code § 56375. Notably, LAFCo is only authorized to impose conditions on a local agency in limited circumstances. See, e.g., Gove Code §§ 56375(a)(5); 56376.5(c) ("This section shall not be construed as authorizing a commission to impose any conditions which it is not otherwise authorized to impose"); 56886 (conditions that may be imposed related to reorganization). The Cortese-Knox-Hertzberg Act does not authorize LAFCo to impose conditions related to a spheres of influence ("SOI") determination except when considering an amendment to an SOI requested by a third party. Gov. Code § 56428(e).

One of LAFCo's primary responsibilities is to establish an SOI for local governmental agencies "to promote the logical and orderly development of areas within the sphere." Gov. Code § 56425(a). A LAFCo is required to review and possibly update an agency's SOI at least once every five years. Gov. Code § 56425(g). In determining an agency's SOI, a LAFCo can consider reorganization, including dissolution, of an agency when it is found to be feasible and "will further the goals of orderly development and efficient and affordable service delivery." Gov. Code § 56425(h); *see also* Gov. Code § 56375(a)(2)(F) (dissolution is an act of reorganization).

b. **The Report Proposes Actions Beyond LAFCo's Authority.**

The statutory purpose of a service review is to provide the information necessary "to prepare and to update spheres of influence." Gov. Code § 56430. The Cortese-Knox-Hertzberg Act requires a service review to include seven determinations. These include "[a]ccountability for community service needs, including governmental structure and operational efficiencies" and "[a]ny other matter related to effective or efficient service delivery . . . ." Gov. Code § 56430(a)(6)-(7).[1] State law permits a LAFCo to assess the consolidation of government agencies, but only to the extent such consolidation "improve[es] efficiency and affordability of infrastructure and service delivery within and contiguous to the sphere of influence . . . ." Gov. Code § 56430(b). In sum, LAFCo is only authorized to review the District's SOI or reorganization to the extent such review is related to "efficient and affordable service delivery." LAFCo's own service review policies reflect this limitation. Santa Clara LAFCo Service Review Policies, p. 1 ("The service reviews are intended to serve as a tool to help LAFCo, the public and other agencies better understand the public service structure and evaluate options for the provision of efficient and effective public services;" service review may be used to "[r]ecommend actions when necessary, to promote the efficient provision of those services"). Given that Harvey Rose concludes that the District puts almost 100% of its funds that are not restricted by the Gann limit towards community benefit programs, and thus, in our view, is a model for efficiency, the conclusions of the Report are unfounded and unlawful.

c. **The Report Asks LAFCo to Become the District's Manager.**

In apparently its first ever service review for a health care district, Harvey Rose appears to be acting as a management consultant, rather than providing LAFCo the information necessary to ensure orderly development and efficient and affordable service delivery. Harvey Rose

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1 Harvey Rose appears to have relied on a superseded version of the law because the Report does not include all required determinations. Government Code section 56430(a)(2) requires a determination of the "location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence." However, the Report's statement of determination makes no such determination. Report at 5-20 to 5-21.

has prepared a service review that would substitute the opinion of LAFCo over that of a publicly elected decision-making body in an area wholly outside LAFCo's expertise – the provision of health care services. For example, the Report requires the District to stop expending its funds on capital improvements to the Mountain View Hospital and instead "divert these funds to community benefits programs" (Report at 6-4), even though the District's expenditure of funds on capital improvements to the Mountain View Hospital is fully consistent with State law and the voters' approval of a measure to tax themselves for that purpose. In addition, the Report requires that the District divert its funds from existing community benefits recipients "to other programs that more directly benefit the residents of the District" (Report at 6-4) even though the current expenditures of community benefits dollars are fully consistent with State law, and as recognized by the County Resolution, the District currently provides "the most cost-effective, direct use of its funds to benefit the health of our community" which "funds have directly helped 12,518 patients receive cost-effective primary care and dental services, avoiding inevitable emergent medical and dental crises that would require many times the funding to treat." County Resolution.

The Report includes a mandate that, if these and other recommended actions that would limit how the District provides its health care services are not implemented, the District Board must remove the District as the sole voting member of the Hospital Corporation and change the membership of the Hospital Corporation Board to include majority representation by individuals other than members of the District Board of Directors. If this governance change is not made, the Report concludes the District should be dissolved. Report at 6-10.

To be clear, the District welcomes the opportunity to consider recommendations for how it could best serve the District and further increase transparency. But imposing mandates that abrogate powers of the District given by its enabling legislation is an unauthorized imposition of a condition and unrelated to the affordable or efficient provision of health care services. Gov. Code §§ 56425(h); 56430(a)(6)-(7).

d. The Report Would Have LAFCo Usurp the Powers Granted to a Publicly Elected Board Even Though Current Operations are Authorized by Law.

The Report also separately mandates that "if the [Hospital] Corporation continues to purchase property outside of the District boundaries" the District must give up control of the Hospital Corporation or face dissolution. The justification for this requirement is not stated by Harvey Rose. Perhaps it is based on Harvey Rose's assertion that, because the Hospital Corporation has received funds from the District specifically to support the El Camino Mountain View Hospital, that all Hospital Corporation revenues, including any revenues not received from the District, must be spent within the District boundaries. We note that this proposed limitation mirrors legislation vetoed by Governor Schwarzenegger, SB 1240 (Corbett, 2010). This legislation would have, with certain exceptions (including one applicable to the Hospital Corporation), required all revenues generated by a health care district facility or facilities that are operated by another entity, to be used exclusively for the benefit of a facility within the geographic boundaries of the district and owned by the district. The Governor's veto message stated that existing law already provided for balanced safeguards, and that the bill would have "disrupt[ed] the balance between local discretion by local elected officials and state policy for assuring access to health care." If LAFCo approves the Report, it would be taking the position that it has the ability to impose conditions on health care districts that was proposed by the Legislature but rejected.

The Report also ignores that the Los Gatos campus, and the dialysis service centers that have been in operation for approximately 20-years, are owned and operated by the Hospital Corporation and not the District. As stated above, the Report's conclusion that "any activities of the [Hospital] Corporation are, by extension, activities of the District" (Report at 5-9) is not legally defensible or consistent with the Report's recognition that the Hospital Corporation and the District are separate legal entities. But even assuming, for the sake of argument, that the Hospital Corporation's actions are, by extension, actions of the District, the District itself has the right to own and operate health care facilities within and without the limits of the District. Health & Safety Code section 32121(c) specifically provides that a health care district has the power to:

> purchase, receive, have, take, hold, lease, use, and enjoy property of *every kind and description within and without the limits of the district*, and to control, dispose of, convey, and encumber the same and create a leasehold interest in the same for the benefit of the district, [emphasis added]

and Health & Safety Code section 32121(j) specifically provides that a health care district has the power to:

> establish, maintain, and operate, or provide assistance in the operation of, one or more health facilities or health services, including, but not limited to, outpatient programs, services, and facilities; retirement programs, services, and facilities; chemical dependency programs, services, and facilities; or other health care programs, services, and facilities and activities *at any location within or without the district* for the benefit of the district and the people served by the district. [emphasis added]

The Report would essentially take away the enumerated powers of the District under these provisions of the Health & Safety Code to determine what is in the best interests of the District and the people served by the District, rather than leaving that decision where it belongs, with publicly *elected* District board members who must be responsive to their constituents.

The Report's mandate that the District no longer exercise rights that it is specifically empowered to exercise under the enabling legislation for health care districts is improper and there is no precedent or authority that supports such a mandate. We also believe that implementing the requirement that the District give up sole voting membership of the Hospital Corporation would require confirmation by the voters of the District under the Health & Safety Code, which issue is not identified or considered in the Report at all. *See* Health & Safety Code § 32121.7.

e. **The Report's Dissolution Findings are Unlawful and Unwarranted.**

LAFCo does not have the power to impose conditions on the District or mandate how the District should exercise its discretion. It is one thing for LAFCo to make recommendations related to the seven determinations required in a service review, but when those recommendations become mandates that the District cede its rights and powers granted by the State Legislature on threat of dissolution, LAFCo would be exceeding its authority. As explained above, LAFCo is only authorized to self-initiate reorganization action such as dissolution if it "will further the goals of orderly development and efficient and affordable service delivery." Gov. Code § 56425(h). However, dissolution is threatened in the Report, not to further the efficient and affordable delivery of health care services, but to be used by LAFCo as a hammer, if the District does not acquiesce to the Report's demands.

The Cortese-Knox-Hertzberg Act provides no authority for LAFCo to threaten local agencies with dissolution if an agency does not permit LAFCo to substitute LAFCo's judgment for that of the agency with respect to matters unrelated to the efficient and affordable delivery of services. Instead, dissolution must *further* the affordable and efficient delivery of health care services. The Report fails to explain how dissolving the only health care district in Santa Clara County would improve assess to health care services.

The District provides invaluable community benefits related to health care, and dissolution of the District would result in the community being denied access to needed medical services <u>without any reduction in taxes to the District residents</u>. This is because any successor agency would not have a legal mandate to use its increased tax allocation for health care purposes. Further, the Report's findings that the District and the Hospital Corporation no longer needs taxpayer support is beyond the role of LAFCo in determining an appropriate sphere of influence.[2] Any decision of whether taxpayer dollars should be redirected from health care services is reserved to the State or the voters of the District.

Given that the Report concludes that the District and Hospital Corporation are well managed and valuable assets to the community, the Report's recommendation of dissolution if the District does not accede to all of the Report's demands appears completely unnecessary and should be rejected. At the very least, the findings required to dissolve the District should not be made

2 We also question the appropriateness of the Report's concluding that the sphere of influence or boundaries of the District should not be expanded, despite an explicit recognition that such expansion would better reflect the Mountain View Hospital's service reach into surrounding communities. Harvey Rose appears to be playing two sides of a coin. It complains that the District and the Hospital Corporation provide services to "non-District residents, who are not taxed" (Report at 6-10) but also argues against expanding the SOI because it result in "[a]dditional taxpayers, *who already have access to Mountain View Hospital services*," would be taxed. Report at 6-6 (emphasis added). These two arguments appear irreconcilable. It should be noted that the Hospital Corporation does not deny service to anyone based on their location of residence or ability to pay.

unless and until LAFCo has actually determined to initiate dissolution proceedings.[3] In addition, the Report fails to disclose the requirement in Gov. Code section 57103 that any LAFCo resolution ordering dissolution of a health care district is subject to confirmation of the voters, which requirement was not eliminated or modified by California Assembly Bill 912, which implemented changes to Gov. Code section 57077 only.

6. LAFCo Should Not Adopt the Report's Recommendations Regarding Corporate Restructuring or Dissolution.

We urge LAFCo to not adopt the Report's recommendations regarding corporate restructuring or dissolution so that the Report better reflects the purpose of a service review and LAFCo's authority. Finally, since there is no immediate recommendation of initiating dissolution proceedings, we respectfully request that LAFCo not adopt any of the dissolution findings contained in the Report. Dissolution proceedings have not been initiated, thus it is premature to adopt findings related to such proceedings before an adequate record has been developed. The District intends to zealously defend its autonomy to determine how to continue to provide "the most cost-effective, direct use of its funds to benefit the health of our community" and manage its operations. We look forward to working with LAFCo to address our concerns.

Sincerely,

Gregory B. Caligari

Attachments
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3 We have significant concerns regarding all of the dissolution findings in the Report. For example, we note that the finding for whether dissolution would promote public access and accountability is circular. The Report simply finds that if there were no longer a District then public access and accountability would be moot. This ignores whether dissolution would *promote* public access and accountability. It also makes the requirement to make such a finding a nullity, effectively stripping it from the statute, because *any* LAFCo could make the same finding to dissolve *any* agency without consideration of *any* agency-specific facts. This makes the Report's findings completely arbitrary.

cc: (by email)
Vice-Chairperson Wasserman (Mike.Wasserman@bos.sccgov.org)
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Attachment 1

El Camino Hospital District Community Benefit Recipients FY09-FY11

FY09- FY11 Community Benefit Grants Distributed	FY09	FY10	FY11
Alzheimer's Association	$40,000	$0	$60 000
American Red Cross	$0	$0	$10 000
Cancer Support Community (Wellness Community)	$0	$50,000	$50 000
Columbia Neighborhood Center	$55,200	$55,200	$76 400
Community Health Awareness Council	$100,000	$100 000	$100 000
Community Service Agency- Mountain View	$100,000	$130,000	$113 761
Concern to Community Benefit transfer	$1 268 275	$1 884 171	$1 775 872
Cupertino Union School District	$52,000	$68,846	$53 117
Eating Disorders Resource Center	$10,000	$12 500	$15 000
Healthcare Foundation of Northern & Central CA- New Directions Program	$30,000	$60,000	$90 000
Healthcare Foundation of Northern & Central CA- Medical Respite Program	$20,000	$25,000	$25 000
Health Teacher	$0	$78 322	[illegible] 375
Lucile Packard FND - Mobile Adolescent Health Services	$64,000	$65 000	$71 500
Mayview Community Health Center	$100,500	$108,000	$111 000
Momentum (for Mental Health services & medication)	$0	$124,711	$210 530
Mountain View-Whisman School District	$100,000	$175 500	$198 099
National Alliance on Mental Health- Peer PALS Program	$0	$0	$2,917
Pathways Hospice Foundation			[illegible] 000
Playworks	$0	$82 500	$82 500
Santa Clara Family Health Foundation- Healthy Workers	$0	$50,000	$0
Sunnyvale Community Services	$50,000	$105 000	$75 000
Sunnyvale School District	$127,000	$290 500	$171 230
The Health Trust- Children's Dental Center	[illegible] 000	$0	[illegible] 000
West Valley Community Services	$0	$38 000	$59 000
Valley Medical Foundation- Valley Health Center Sunnyvale	$0	$1 236 000	$1 236 000
SUBTOTAL GRANTS	$2,153,975	$4,763,250	$4,821,910

FY09- FY11 Community Benefit Sponsorships Distributed	FY09	FY10	FY11
Admark	$0	$0	$1 399
Aging Services Collaborative (The Health Trust)	$0	$0	$500
AIDS Coalition of SV	$2 500	$0	$0
Alzheimer's Association	$16,287	$19 000	$5 000
American Red Cross	$15,000	$35 000	$0
Breast Cancer Connections	$0	$5 000	$0
Cancer Support Community (Wellness Community)	$0	$0	$20 000
City of Mountain View Senior Center	$0	$0	$1 987
Coda Alliance- Annual Compassionate Care Conference	$0	$1 000	$0
Community Health [illegible]	$10,000	$10,000	$0
Community Health Partnership Health Forum	$0	$4 900	$0
Community Services [illegible]	$15,[illegible]	$1[illegible]	
Congregation Shir Hadash Healthy Living Fair	$2,500	$2 500	$0
DeAnza [illegible]	$0	[illegible]	
DeAnza College- Medical Lab Technicians Internship Program	$0	$10 000	$10,000
ECH [illegible]	$1,025	$0	$0
El Camino YMCA of Silicon Valley	$6,500	$0	$2 500
Foundation of American College	$5,000	$0	$0
Green Town Los Altos	$0	$1 000	$0
Health Screenings (Bayspoon)	$0	$3 284	
Healthy Silicon Valley	$1,[illegible]	$0	$0
Juvenile Diabetes Research Foundation	$1,000	$0	$0
Kids in Common Children's Summit	$0		$0
K.I.D.S. 5K Run Walk Fun	$0	$0	$300
Leadership Mountain View	$0	$0	$2 500
Los Altos Community Foundation	$1,000		
Los Altos Rotary AIDS Project	$0	$2 500	$2 000
MidPeninsula Media Center	$5,000	$0	$0
Mountain View Police Activities League	$0	$2 500	$1 000
Mountain View Senior Center	$0		
National Kidney Foundation	$2,500	$0	$0
Pathways [illegible]	[illegible] 500		$25 000
Peninsula Stroke Association	$7,500	$2 500	$5 000
Playworks- Sports for Kids	$1,500	$1 000	[illegible] 000
RotaCare Bay Area		$5 000	$0
Santa Clara Family Health Foundation- Healthy Kids			
Saratoga Senior Center	$75	$2,000	$0
Self Help for the Elderly	$0	$0	$500
Silicon Valley Leadership Group	$0	$2,000	$0
Sunnyvale Community Services	$5,000	$0	$0
Sunnyvale Senior Center- City of Sunnyvale	$250	$2,000	$1 000
The Health Trust	$15,000	$500	$0
VMC Foundation	$0	$20,500	
SUBTOTAL SPONSORSHIPS	$150,220	$189,664	[illegible]
TOTAL GRANTS AND SPONSORSHIPS	$2,304,195	$4,952,914	$5,047,483

FY09- FY11 Community Benefit Government Means Tested Distributed	FY09	FY10	FY11
Santa Clara Family Health Foundation- Healthy Kids	$75,000	$100,000	$75 000

TOTAL GRANTS, SPONSORSHIPS & Means Tested	$2,379,195	$5,052,914	$5,122,483
Final total after Adjustments	$2,379,195	$5,112,914	$5,039,698

Attachment 2

Text of County Resolution
(Unanimously adopted by Santa Clara County Board of Supervisors on May 22, 2012)

WHEREAS, Santa Clara Valley Medical Center is dedicated to the health of the whole community, providing a comprehensive health care system which includes an established network of community clinics known as Valley Health Centers. Valley Health Centers ensure that residents have access to vital primary care, laboratory, radiology, dental care, behavioral health care and pharmacy services in their neighborhoods; and

WHEREAS, cuts in California's state budget have resulted in reductions in coverage for critically important preventive services for Santa Clara County residents using Medi-Cal, and many more people have recently been left without health care coverage due to recent economic constraints across the country; and

WHEREAS, El Camino Hospital District has as its mission to address the unmet health needs of its community, and has over the past three years donated $3,814,000 to underwrite otherwise un-funded services at Valley Health Center Sunnyvale. These funds have directly helped 12,518 patients receive cost-effective primary care and dental services, avoiding inevitable emergent medical and dental crises that would require many times the funding to treat; and

WHEREAS, the partnership between El Camino Hospital District and Santa Clara Valley Medical Center is a model of collaboration between a public health system and a non-profit hospital district to meet their shared goal of improving our community's health. El Camino Hospital and Santa Clara Valley Medical Center have been developing programs and support systems as part of readying the County for health care reform. An important element of the partnership is fully developing the "medical home" model in which all care is provided in one place.

NOW, THEREFORE, BE IT RESOLVED that the Board of Supervisors of the County of Santa Clara, State of California does hereby honor and commend El Camino Hospital District for its dedication to the health of the people of Santa Clara County and the partnership it has undertaken to make the most cost-effective, direct use of its funds to benefit the health of our community.

PASSED AND ADOPTED this Twenty-Second Day of May, Two Thousand Twelve, by unanimous vote.

____

George M. Shirakawa
President, Board of Supervisors

____

Mike Wasserman
Supervisor, District One

____

Ken Yeager
Supervisor, District Four

____

Dave Cortese
Supervisor, District Three

____

Liz Kniss
Supervisor, District Five

____

Lynn Regadanz
Interim Clerk, Board of Supervisors

EXHIBIT B

COX CASTLE NICHOLSON

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Gregory B. Caligari
415.262.5111
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May 11, 2012

File No. 62721

VIA E-MAIL (Neelima.Palacherla@ceo.sccgov.org)

Neelima Palcherla, Executive Officer
Santa Clara County Local Agency Formation Commission
70 West Hedding Street
11th Floor, East Wing
San Jose, CA 95110

Re: Administrative Draft El Camino Hospital District Audit and Service Review

Dear Neelima:

Thank you for the opportunity to present the following comments regarding the *Administrative Draft El Camino Hospital District Audit and Service Review* (the "Report"), and for meeting with me and my associate Christian Cebrian on Thursday, May 3rd. The majority of our specific comments are delineated in the copy of the draft that is enclosed with this letter. However, we would like to take this opportunity to present several of El Camino Hospital District's (the "District") higher level comments in this letter.

In sum, the mandates in the Report related to the control, management and potential dissolution of a governmental agency appear unwarranted given no finding of impropriety is made related to the governance structure or finances of either the District or the El Camino Hospital Corporation (the "Hospital Corporation"). Indeed, the Report finds that the Hospital is a "successful organization in a thriving healthcare market," that provides "a vital healthcare service in the community" and that the District has demonstrated "an ability to contain costs and improve[] financial performance." The Report also concludes that the District and Hospital Corporation are "performing well" and in "good to excellent, as well as stable" financial condition. The recommendation to upset the current governance of the District and Hospital Corporation, including the possible dissolution of the District, and conclusion that continued contribution of taxpayer resources to the District are no longer justified, are misplaced given these findings.

The following are our general comments related to the Report:

- **The Report Advocates Rather than Discloses.** We have concerns that facts are not presented in a neutral manner as would be expected in a service review or audit. For example the Report states that the "vast" majority of the Hospital's community benefits reflect unreimbursed costs then discounts the value of such benefits. The Report fails to disclose that this ratio is well within the norm for hospitals throughout California. Likewise, the Report repeatedly states that the District does not "distinguish itself." The relevant metric for service reviews under Cortese-Knox-Hertzberg Act is "effective or efficient service delivery." Gov Code § 56430(7). Setting aside our disagreement regarding areas where the District does distinguish itself as noted elsewhere in this letter and the attachment, ultimately whether the District distinguishes itself is criticism that does not further the analysis of whether the District provides efficient or effective benefits to the community. The lack of neutrality of the Report is also apparent in its failure to enumerate the highly valuable and effective community benefit programs funded by the District and the awards both the District and the Hospital have received for their service to the community. We have provided you with detailed information regarding the District's procedures, policies, and reporting requirements regarding the community benefits programs that ensure District funds are used to support the people served by the District.

- **Factual Inaccuracies and Omissions.** The Report contains numerous factual inaccuracies and omissions that should be corrected before the Report is made public. The following are a few examples:

    - The Report relies on a third party white paper, rather than actual legislative history, to describe the legislative intent of the Local Health Care District Law. This error is compounded by the Report ignoring the intent of the amendments made to this law since 1945, including the removal before 1956 of any requirement that a district be located in a rural area, significant amendments to hospital district enabling legislation in 1993 to rename hospital districts "health care districts" and expanding the definition of health care facilities to reflect changes in the medical services industry. In addition, the Report does not discuss the seismic safety standards (requiring compliance by 2013) for hospitals established by the State legislature in 1994. In many cases these seismic safety standards required the replacement of existing hospitals (the new Mountain View Hospital opened in 2009 to meet such seismic standards with the financial assistance of the District).

    - The 374 General Acute Care beds referred to in the Report include 99 beds located in the old Hospital tower which have not been available for use since the new Mountain View Hospital was opened in 2009, and which will be deleted from the Hospital license as of December 31, 2012. This error infects much of the Report's service review, especially all conclusions regarding capacity.

- One of the key figures in the Report is Figure 3.1, which is intended to reflect the relative tax allocation for California health care districts FY 09-10. This Figure is incomplete and misleading. For example, it omits certain large health care districts, including Grossmont Healthcare District and Peninsula Healthcare District, and fails to reflect the actual and substantial tax revenues of the Washington Township Healthcare District. In addition, while assessed valuation is not available for all districts, the State Controller's report upon which this figure is based reflects that some districts receive more than four times the amount of taxes per assessed valuation as the District, which is not reflected in the Report. Figure 3.1 is also misleading in that it fails to distinguish between 1% ad valorem tax revenues and general obligation bond tax revenues that are separately approved by district voters.

- The Report is inaccurate regarding the governance structure of the Hospital Corporation. Contrary to the statements in the Report, the Chief Executive Officer, as an *ex officio* member of the Board of the Hospital Corporation, has full voting rights on the Hospital Corporation Board as specified in the Hospital Corporation Bylaws. In addition, the Report incorrectly states that all the elected District Board members are also members of the Hospital Corporation Board of Directors. Uwe Kladde is an elected member of the District Board, but is no longer on the Hospital Corporation's Board.

- The findings and recommendations in the Report appear unprecedented, other than, perhaps, the recent deliberations of the Contra Costa County LAFCo related to the Mt Diablo Healthcare District. In that case, however, the LAFCo found that the Mt. Diablo Healthcare District had in the past decade spent 85% of its property tax proceeds on overhead, election and legal bills. Here, in stark contrast, over the past five years (FY2007-FY2011), the District has spent a total of only Fifteen Thousand Six Hundred Fifty Dollars ($15,650) on general and administrative expenses, meaning that nearly 100% of the one percent ad valorem tax revenues received by the District have been allocated for community benefits programs, funds to assist in financing the construction of the new earthquake safe Mountain View Hospital, and other capital improvements for the Mountain View Hospital – all of which provide valuable benefits to the residents of the District. The Report fails to disclose this important information regarding the highly efficient use of District tax revenues.

- **The Report Incorrectly States that the District May Have Violated Heath & Safety Code Requirements Re Voter Approval for the Transfer of Assets from the District to the Hospital Corporation.** The 1992 transactions between the District and the Hospital Corporation described in the Report transferred assets greater than 50% of the District assets to the Hospital Corporation in compliance with the applicable requirements of Health and Safety Code § 32121(p). During the 1991-92 regular session and the 1993-1994 regular session, many of the provisions on which the Report bases its assertions of a violation of Health and Safety Code § 32121(p) were added (including the voter approval requirement for district transfers of 50 percent or more of the district's assets referred to in the Report). The District had discussed and adopted a board resolution prior to September 1, 1992 that authorized the development of a business plan for an integrated delivery system. As a result, with respect to transfers between the District and the Hospital Corporation, the District is exempt from these changes to §32121(p) made between 1991-1994. Health and Safety Code § 32121(p)(4)(A).

  At our meeting on May 3rd, you asked whether the District continues to operate through an integrated delivery system. This is irrelevant to the applicability of the 32121(p)(4)(A) exemption, which only requires adoption of a resolution and does not require ongoing use of an integrated delivery system. (Compare, for example, the exemption contained in the very next subsection, Health and Safety Code § 32121(p)(4)(B), which pertains to "[a] lease agreement, transfer agreement, or both between a district and a nonprofit corporation that were in full force and effect as of September 1, 1992, *for as long as that lease agreement, transfer agreement, or both remain in full force and effect.*" (emphasis added).)

  We would also note that, when enacting SB 819 in 1999 (which added Health & Safety Code §§ 32121.7 and 32121.8), the State legislature recognized the unique relationship between the Hospital Corporation and the District, and that continuing asset transfers will take place between the Hospital Corporation and the District. Rather than prohibiting those transactions, the Legislature chose to regulate dispositions by the Hospital Corporation. Health and Safety Code § 32121.7. Specifically exempted from these restrictions are transfers by the Hospital Corporation to the District or to any entity controlled by the District. Health and Safety Code § 32121.7(f). A parallel exemption for transfers from the District to the Hospital Corporation or other entities controlled by the District was not required because of the categorical exemption applicable to the District under Health and Safety Code § 32121(p)(4)(A).

- **The Report Discounts the Corporate Separateness of the District and Hospital Corporation.** The Report recognizes, but essentially ignores, that the District and the Hospital Corporation are separate legal entities. The Report repeatedly states that the District and the Hospital Corporation are indistinguishable from a governance and financial perspective. Consolidated financial statements for the District and the Hospital Corporation are required by accounting practices and are a standard for financial reporting for government agencies and others. Moreover, State law permits the governance structure used by the District and Hospital Corporation, and specifically recognizes the District and the Hospital Corporation as separate legal entities. (*See, for example,* Health & Safety Code § 32121.7). There is no basis to penalize or mandate business decisions when the District is complying with the law.

- **Mandate to Change Corporate Structure Inappropriate.** The Cortese-Knox-Hertzberg Act requires LAFCo's to conduct service reviews in order to prepare and to update spheres of influence for the agency being reviewed. Gov. Code § 56430(a). Within this limited context, LAFCos are permitted to make findings related to the governmental structure of agencies only as they relate to "accountability for community service needs." Gov. Code § 56430(a)(6). The Report's requirement that the District Board remove the District as the sole voting member of the Hospital Corporation and change the membership of the Hospital Corporation Board to include majority representation by individuals other than members of the District Board of Directors amounts to a LAFCo mandate that the District no longer exercise rights that it is specifically empowered to exercise under the enabling legislation for health care districts.[1] We are unaware of any precedent or authority that supports such a mandate. We also believe that implementing this requirement could require confirmation by the voters of the District under the Health & Safety Code, which issue is not identified or considered in the Report at all. Health & Safety Code § 32121.7. This mandate regarding governance and control of the Hospital Corporation is particularly troubling when considering that all of the other proposals described in the subsection of the Report entitled "Maintain District Boundaries/Improve Governance, Transparency and Accountability" could be implemented without any change to the voting membership in the Hospital Corporation or to the Board of Directors for the Hospital Corporation, as acknowledged by Mr. Foti in our meeting on May 3rd.

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1 Health & Safety Code § 32121(o) states that health care districts may exercise the power to "establish, maintain, and carry on its activities through one or more corporations, joint ventures, or partnerships for the benefit of the health care district." Surprisingly, although the Report enumerates certain powers of health care districts under Health & Safety Code § 32121, the Report fails to mention this key provision in the enabling legislation.

- **Mandate to Change Corporate Structure Would Decrease Transparency, Public Accountability and Efficiency.** The Report contains no substantiated finding that the changes recommended by the Report would result in greater accountability for community service needs. Indeed, we believe the proposed changes would actually *decrease* transparency, public accountability and efficiency. The recommended changes to the Hospital Corporation's Board would insulate it from community control as it would no longer consist of a majority of publically *elected* board members that must be responsive to their constituents. Further, the recommended changes could result in the Brown Act no longer applying to Hospital Corporation Board meetings, which would result in reduced transparency related to Hospital operations and management, and elimination of the requirement that that the audit of the Hospital Corporation finances be made publicly available. Further, requiring the District to directly administer a grant program will result in higher administrative and overhead costs (currently provided by the Hospital Corporation) resulting in fewer dollars going towards actual services and programs. Finally, the mandates imposed on the District are unacceptably vague. The Report states that the District must make "satisfactory improvements" within 12-18 months or face dissolution. The Report provides insufficient detail or verifiable benchmarks to guide the District. This could result in, despite serious efforts to comply with LAFCo's mandate, the District being dissolved if LAFCo decides its efforts were simply not good enough. Given the threat of dissolution put forward by LAFCo, it should at least give the District a roadmap so that it can have certainty whether it can satisfy LAFCo demands.

- **Recommendation of Dissolution Unwarranted and Detrimental to those Served.** The Report's threat of dissolution of the District and findings regarding such dissolution are unwarranted. The District provides invaluable community benefits related to healthcare and dissolution of the District would result in disadvantaged and high risk communities being denied access to needed medical services, <u>without any reduction in taxes to the District residents</u>. This is because any successor agency would not have a legal mandate to use its increased tax allocation for health care purposes. Further, the Report's findings that the District and Hospital Corporation no longer needs taxpayer support is beyond the role of LAFCo in determining an appropriate sphere of influence.[2] Any decision of whether taxpayer dollars should be redirected from health care services is reserved for the State legislature or the voters of the District. Given that the Report concludes that the District and Hospital Corporation are well managed and valuable assets to the community, the Report's recommendation of dissolution if the

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2 We also question the appropriateness of the Report's concluding that the sphere of influence of the District should not be expanded, despite an explicit recognition that such expansion would better reflect the Mountain View Hospital's service reach into surrounding communities.

District does not accede to all of LAFCo demands appears overly aggressive and should be tabled. At the very least, the findings required to dissolve the District should not be made unless and until LAFCo has actually determined to initiate dissolution proceedings.[3] In addition, the Report fails to disclose the requirement in Gov. Code § 57103 that any LAFCo resolution ordering dissolution of a health care district is subject to confirmation of the voters, which requirement was not eliminated or modified by California Assembly Bill 912, which implemented changes to Gov. Code § 57077 only.

We look forward to working with LAFCo to address these concerns. Given the scope of our comments, LAFCo staff may find it appropriate to delay the public release of the Report to later this summer so that sufficient time is available to research and implement any appropriate changes.

Sincerely,

Gregory Caligari

Gregory B. Caligari

GBC/CHC

62721\4160231

cc: Malathy Subramanian, LAFCO Counsel (Malathy.Subramanian@bbklaw.com)
Steven Foti, Harvey M. Rose Associates, LLC (sfoti@harveyrose.com)
Tomi Ryba
Ned Borgstrom

3 We have significant concerns regarding all of the dissolution findings in the Report. For example, we note that the finding for whether dissolution would promote public access and accountability is completely circular. The Report simply finds that if there were no longer a District then public access and accountability would be moot. This ignores whether dissolution would *promote* public access and accountability. It also makes the finding a nullity because *any* LAFCo could make the same finding to dissolve *any* agency without consideration of *any* agency specific facts. This makes the Report's finding completely arbitrary.

DRAFT

Audit and Service Review
of the
El Camino Hospital District

Prepared for the

Local Agency Formation Commission of Santa Clara County

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April 23, 2012

Summary of Comments on CCNDOCS-#4160470-v6-Audit_and_Service_Review_of_the_El_Camino_Hospital_District.PDF.pdf - PDF Converter Enterprise 7.2

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Table of Contents

Global change of Los Gatos Hospital to Los Gatos Campus

1. Introduction

Harvey M. Rose Associates, LLC is pleased to present this *Audit and Service Review of the El Camino Hospital District* prepared for the Santa Clara County Local Agency Formation Commission (LAFCo). This audit and service review was conducted under authorities granted to the Santa Clara County LAFCo that are contained in California Government Code Section 56000, et seq., known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH Act).

Methodology

The audit portion of the project was conducted in accordance with *United States Government Auditing Standards, 2011 Revision*, as promulgated by the Comptroller General of the United States. The Service Review component was conducted in accordance with the CKH Act and other relevant sections of State law, LAFCo policies, and LAFCo's Service Review Guidelines, as promulgated by the Governor's Office of Planning and Research.

Scope and Objectives

The scope of the project was designed to provide information to the Santa Clara County LAFCo on required objectives described in the CKH Act, including analysis of the following:

1. Growth and population projections for the affected area.
2. Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.
3. Financial ability of agencies to provide services.
4. Status of, and opportunities for, shared facilities.
5. Accountability for community service needs, including governmental structure and operational efficiencies.
6. Any other matter related to efficient or effective service delivery, as required by commission policy.

The audit was designed to answer specific questions related to the El Camino Hospital District's governance structure; its financial relationship to the El Camino Hospital Corporation and affiliated non-profit organizations; the financial condition of the District and Corporation; the availability of reserves; the source and use of taxpayer funds used for hospital operations, capital improvements and the acquisition of the Los Gatos Hospital; and other related topics. A full listing of these questions can be obtained from the Santa Clara County LAFCo Request for Proposals related to this project.

The Audit and Service Review was conducted between December 12, 2011 and April 30, 2012. At the conclusion of the field work phase of the project, a draft report was produced and exit conferences were held with responsible Santa Clara County LAFCo and District officials for quality assurance purposes and to obtain comments on the report analysis, conclusions and recommendations. A final report was submitted to Santa Clara County LAFCo on XXXXX ##, 2012 for public review and comment.

Project Objectives

Established in 1956 to provide healthcare services to rural populations, the El Camino Hospital District grew to become a major healthcare and hospital service provider in Northern Santa Clara County. Over the years, methods of providing services evolved. In 1992, the El Camino Hospital Corporation was created and all assets of the District were transferred or sold to the Corporation. Thereafter, the District designated the Corporation as the entitiy responsible for providing direct services to District residents. Beginning in 1996, the District assumed control of the Corporation as the "sole member" of the Corporation Board of Directors.

In 2008, the Corporation expanded operations by purchasing Los Gatos Hospital, which is located outside of the District and defined Sphere of Influence (SOI). This action precipitated the questions that are the subject of this audit and service review. In addition, in 2011, the Santa Clara County Civil Grand Jury criticized the District and Corporation for unclear accountability, lack of financial and organizational transparency, and actions it had independently undertaken to acquire Los Gatos Hospital without first seeking approval from Santa Clara County LAFCo. In light of these concerns, the Santa Clara County LAFCo decided that it wanted to do its own evaluation of these questions.

As a result, the primary objective of the proposed Audit and Service Review was to provide answers to the following two questions:

1. Is the El Camino Hospital District providing services outside of its boundaries, possibly in violation of State law?
2. Should the District continue to exist and/or continue to receive public funds or could another entity provide the District's services more efficiently?

This Audit and Service review responds to these questions and provides recommendations to help guide Santa Clara County LAFCo as it makes decisions regarding the El Camino Hospital District.

Page:4

§ 32001 - Legislative history should reflect 1947 amendment increased population limit in County from 200K to 1M; population limited deleted, thus when District created, statute was not intended for "rural" areas.

Delete: "Board of Directors"

Insert: "the real estate comprising" in between purchasing and Los Gatos Hospital

Delete: "possibly in violation of State law?" This language was not in the RFP.

This paraphrases RFP request.

This background does not explain Disrict fought to regain control due to improve quality of operations. As the audit confirms, the District was successful in turning the hospital around.

there is not (and never was) a Los Gatos Hospital – El Camino acquired the campus on which Community Hospital of Los Gatos was located, but it did not acquire the hospital; it operates the Los Gatos campus under the same license that it operates the Mountain View campus.

"all" is inaccurate. The District retained ownership of the land and certain other assets.

Change 2008 to 2009

Change 1996 to 1997.

2. El Camino Hospital District and Its Affiliates

The El Camino Hospital District is a political subdivision of the State of California, formed pursuant to the Local Hospital District Law, now known as the Local Health Care District Law, which is codified in Health and Safety Code Sections 32000-32492. According to the California Healthcare Foundation,[1] the intent of the 1945 law was "to give rural, low income areas without ready access to hospital facilities a source of tax dollars that could be used to construct and operate community hospitals and health care institutions, and, in medically underserved areas, to recruit physicians and support their practices."[2]

Today, the El Camino Hospital District is comprised of six legal entities, including the District and five non-profit organizations. The District's financial statements for the Years Ended June 2011, 2010 and 2009, describe the District and its affiliates, as follows:

> El Camino Hospital District is comprised of six (6) entities: El Camino Hospital District (the "District"), El Camino Hospital (the "Hospital"), El Camino Hospital Foundation (the "Foundation", CONCERN: Employee Assistance Center (CONCERN), El Camino Surgery Center ("ECSC"), and Silicon Valley Medical Development, LLC ("SVMD").

According to the financial statements and other miscellaneous documents reviewed for this Audit and Service review:

- The Corporation and its affiliated entities are non-profit organizations, created pursuant to Section 501(c)(3) of the Internal Revenue Code.
- The District is the "sole member" of the Hospital Corporation.
- The Hospital is the "sole member" of the Foundation and CONCERN.
- ECSC was established as a partnership between the Hospital and a group of physicians. However, the Hospital purchased all physician shares of ECSC on August 31, 2011 and is now the sole owner.
- SVMD was formed in 2008 as a wholly owned subsidiary of the Hospital.

Even though these organizations are recognized as separate legal entities by the State of California, the thread of ownership and control over the activities and finances of these organizations lead directly back to the El Camino Hospital District.

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[1] According to the *Financial Statements of the California Health Care Foundation and Subsidiary, February 28 2011 and 2010*, the "California Healthcare Foundation . . . is a philanthropic organization established as a tax exempt, nonprofit corporation under Section 501(c)(4) of the Internal Revenue Code and the California Tax Code. The Foundation's primary purpose is to promote the availability of, and access to, quality and affordable health care and related services to the people of California . . ."

[2] April 2006, California Healthcare Foundation by Margaret Taylor, "California's Health Care Districts"

- Concern is a (c)(4).

ECSC is an L.L.C.

The governance ~~and financial~~ relationships of these organizations are explored more fully in Section 4 of this report. As described in that section, although each of these organizations have been established as separate legal entities, from a financial perspective and when applying various sections of State law that govern the behavior of public entities, the District and the Corporation are considered to be indistinguishable from one another.

Most notably, when the Corporation was created in 1992, its Board of Directors consisted of a mix of community members as well as District Board members. In 1996, the District prevailed in a lawsuit to regain public control of Corporation activities. Pursuant to the settlement agreement derived from that lawsuit, the District was then established as the Corporation's sole member, all of the District's elected Board members were installed as the Corporation's Board, and the Hospital's Chief Executive Officer (CEO) was added to the Corporation Board as an "ex officio" director.[3] This ex officio status, and the fact the CEO is hired and may be terminated by the Corporation Board, ensures that the elected District Board of Directors maintains complete control over the Corporation.

As the sole member of the Corporation, the District Board has the ability to alter the Corporation's Board membership and, therefore, maintains control of, and is accountable for, the Hospital Corporation. Even if the boards were not the same, there are other characteristics, such as the District's ability to impose its will, financial benefit, and financial burden on the Corporation, which link the boards together and create fiscal dependency.

Timeline of Key Events

Throughout this report, certain key events help to describe and explain the current relationship between the El Camino Hospital District and the Corporation. Explained more fully in the body of the report, the timeline on the next page provides a visual depiction of the evolving relationship between the two organizations, since the passage of the California Healthcare District Law in 1945 and the creation of the ECHD in 1956, through the term of the Amended Ground Lease through 2044.

[3] As an "ex-officio" member, the CEO has no voting rights and is not counted in a quorum.

incorrect. The CEO has full voting rights.

This is a legal conclusion outside consultant's expertise. Harvey Rose has not identified any impropriety that would permit LAFCo, or a court, from ignoring the corporate separateness between the District and the Corporation Harvey Rose appears to disagree with state law permitting such governance structures, but the legal and governance separateness of the District and the Corporation should not be disregarded in an audit or service review.

Page:7

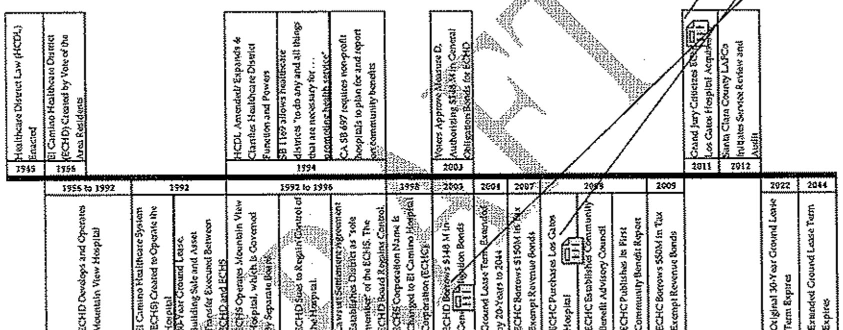
Delete: Hospital
Insert: Real Estate in its place

Change Los Gatos Hospital to:

Los Gatos Campus; not purchased until 2009.

GO bonds authorized in 2003, but not issued until 2006.

Exhibit 2.1
100-Year Timeline of Key Events Affecting El Camino Hospital District and Corporation



Key:
Above the Timeline: Law changes, elections and other external events.
Below the Timeline: Key events and actions taken by the ECHD and/or ECHC.

Add subdivision (o)

The Health & Safety Code provided for this since at least 1982.

3. Hospital Districts in California

In 1945, in response to the shortage of acute care services in rural areas of the state, the California legislature enacted the Local Hospital District Law, now known as the Local Health Care District Law, which is codified in Health and Safety Code Sections 32000-32492. According to the California Healthcare Foundation, the intent of the law was "to give rural, low income areas without ready access to hospital facilities a source of tax dollars that could be used to construct and operate community hospitals and health care institutions, and, in medically underserved areas, to recruit physicians and support their practices." [1]

The health care district authorizing law has been amended multiple times since its original passage, largely for the purpose of expanding the powers and discretion of the healthcare districts. The law today allows districts wide discretion in how they choose to deliver services. The following key subsections of Health and Safety Code Section 32121 (Powers of local hospital districts), delineate these powers.

> (c) To purchase, receive, have, take, hold, lease, use, and enjoy property of every kind and description within and without the limits of the district, and to control, dispose of, convey, and encumber the same and create a leasehold interest in the same for the benefit of the district.
>
> (i) To do any and all things that an individual might do that are necessary for, and to the advantage of, a health care facility and a nurses' training school, or a child care facility for the benefit of employees of the health care facility or residents of the district.
>
> (j) To establish, maintain, and operate, or provide assistance in the operation of, one or more health facilities or health services, including, but not limited to, outpatient programs, services, and facilities; retirement programs, services, and facilities; chemical dependency programs, services, and facilities; or other health care programs, services, and facilities and activities at any location within or without the district for the benefit of the district and the people served by the district.
>
> (k) To do any and all other acts and things necessary to carry out this division.
>
> (m) To establish, maintain, and operate, or provide assistance in the operation of, free clinics, diagnostic and testing centers, health education programs, wellness and prevention programs, rehabilitation, aftercare, and any other health care services provider, groups, and organizations that are necessary for the maintenance of good physical and mental health in the communities served by the district.

As these subsections illustrate, health care districts are authorized to engage in essentially any lawful activity, as long as the activity supports the health care mission in the communities served by the district. Additionally, health care districts may carry out these activities at any location in or outside the district boundaries, as long as the activity is for "the benefit of the district or the people served by the district."

Further, healthcare districts may carry out their missions through a wide variety of organizational structures. Beginning in 1994, with the passage of Senate Bill (SB) 1169, healthcare districts were allowed to sell, lease and transfer assets and establish alternative operational structures for the furtherance of their missions. These changes are described in more detail later in this section.

[1] "California's Health Care Districts," prepared for the California Healthcare Foundation by Margaret Taylor, April 2006.

This page contains no comments

As a result of the passage of SB 697 in 1994[2], health care districts are required to prepare and submit community benefit reports to the Office of Statewide Health Planning and Development (OSHPD) annually. According to the declaration of the law, the intent of the requirement is for health care districts to demonstrate how they meet their "social obligation to provide community benefits in the public interest" as a public entity with taxing authority.

Characteristics of Health Care Districts

As of February, 2012, there were 73 healthcare districts in California[3]. As shown in Table 3.1, of the 73 districts, 43 operate a hospital directly; four operate ambulance services directly; and 15 operate other "community-based services" directly, which are typically ambulatory care clinics. The remaining 11 districts, including El Camino Hospital District, have sold or leased their hospitals to non-profit or for-profit organizations, as discussed in more detail in the next section.

Table 3.1
Summary of Healthcare Districts by Type

Total Healthcare Districts in California	**73**
Healthcare Districts directly operating:	62
Hospital	*43*
Ambulance services	*4*
Other "community-based services"	*15*
Healthcare Districts that sold or leased a hospital to another organization	11

Source: Association of California Healthcare Districts

Of the 73 districts, 31 are designated as rural by the State of California and the remaining 42 are located in more populated areas. The districts are geographically distributed throughout the state, across 38 counties.

According to the most recent information published by the Office of the State Controller[4], 51 healthcare districts received an apportionment of property taxes during the fiscal year that ended June 30, 2010, as shown below in Figure 3.1. These apportionments ranged from a minimum of $102,094 for Muroc Hospital District in Kern County, to a maximum of $27,608,967 for Palomar Pomerado Hospital District in San Diego County.[5] The average property tax

[2] California Health and Safety Code, Sections 127340-127365

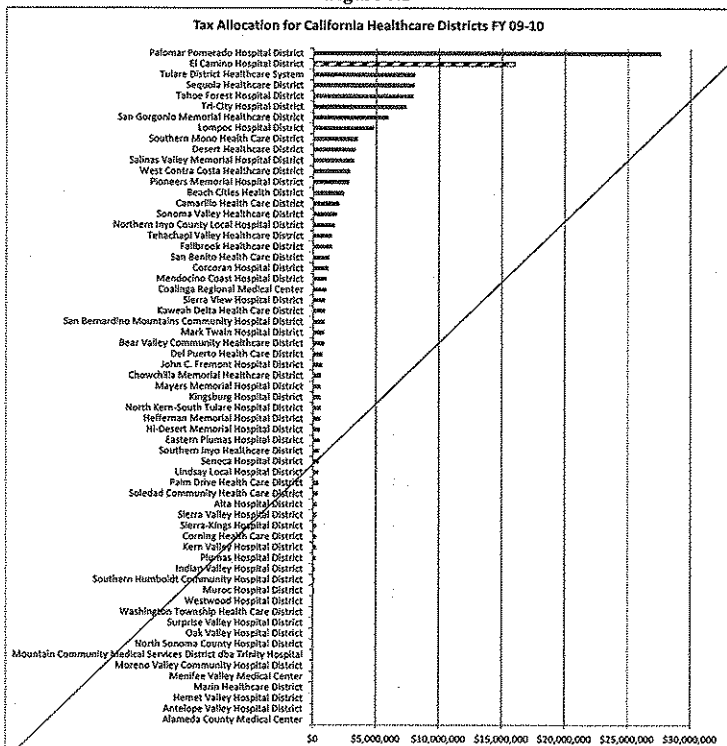
[3] According to the Association of California Healthcare Districts, an additional four organizations are currently registered as a healthcare district with the Secretary of State's Office, but either do not self-identify as a healthcare district (Lindsay Local Hospital District, Sierra Valley Hospital District and Selma Community Hospital) or have filed for bankruptcy and closed but have not yet dissolved as a district (Alta Hospital District).

[4] Special Districts Annual Report, California State Controller, December 13, 2011.

[5] Five districts serve multiple counties and, therefore, receive property tax apportionments from multiple counties. The analysis provided here is based on the aggregate property tax allocations received by each district.

apportionment was $2,575,545, while the median property tax apportionment was $908,941, reflecting the small number of districts receiving a high dollar value property tax apportionment. El Camino Hospital District received $16,016,747 in property apportionment monies in FY 2009-10, second only to Palomar Pomerado Hospital District twice as much as the third highest allocation in California.

Figure 3.1



Source: California State Controller Special Districts Annual Report, FY 2009-10

According to the Association of California Healthcare Districts, 11 of the 73 healthcare districts operating in California as of February 2012, including El Camino Hospital District, had sold or

Includes GO bond assessments.

Insert word taxes allocated and levied

Insert - This graph is in error – it omits dollars contained in the source document for Grossmont, Washington and Peninsula. While assessed valuation is not available for all districts, notice that some districts receive more than four times the taxes per assessed valuation as ECHD. We'd suggest eliminating the much smaller hospital districts.

1982 & (0) pre-existed

leased their hospitals to another ~~non-profit~~ or for-profit organization.[6] These arrangements were allowed under state law enacted in 1994, with the passage of California Senate Bill 1169, which amended the Local Healthcare District Law. This legislation changed regulations governing transfers of property, conflicts of interest, health care trade secrets and the public meeting act, lease agreements, and sales of property and assets.[7] Most significantly, SB 1169 authorized healthcare districts to sell or lease their hospitals, property and operations to private organizations. Subsequently, many healthcare districts chose to reorganize by selling or leasing their hospitals in order to take advantage of the features of the amended law that allowed them to compete with private hospitals and, in some respects, behave more like private hospitals.

ECHD is unique, however, because each of the other ten districts sold or leased their hospitals to well-established, multi-hospital systems, including Sutter Health, St. Joseph Health System, and Catholic Healthcare West. On the other hand, ECHD participated in the creation of a non-profit hospital corporation that was established for the sole purpose of providing the health care services previously provided directly by the District. Although this mission has changed with the purchase of the Los Gatos facility, as discussed in other sections of this report, the governance structure and shared financial management of ECHD and the El Camino Hospital Corporation blur distinctions between the two organizations. In those districts where assets were sold to multi-hospital systems, hospital and district organizations are distinct, with separate governance and financial management structures.

The only exception of the ten other districts that sold or leased their hospitals is Marin Healthcare District. In 1985, Marin Healthcare District leased its hospital to Marin General Hospital Corporation, a private non-profit organization, which soon thereafter entered into an affiliation with California Healthcare Systems. In 1995, California Healthcare Systems merged with Sutter Health, which operated Marin General Hospital for several years. In 2006, a transfer agreement was executed between the District and Sutter Health, beginning the process of transferring control of the Hospital back to the District. In 2010, the District regained full control of the Hospital. However, unlike ECHD, the District board and the non-profit corporation board are composed of entirely different individuals.

Affiliations with Non-Profit Entities

Many health care districts and hospitals in California are affiliated with non-profit entities, such as charitable foundations or physician employee groups. In addition to the hospital corporation, ECHD includes the El Camino Hospital Foundation, the CONCERN Employee Assistance Program, the El Camino Surgery Center, LLC, and the Silicon Valley Medical Development, LLC as component units in its financial statements, meaning that these entities are financially

[6] This does not include Redbud Healthcare District, which sold its hospital to Adventist Health in 1997. The hospital currently has no connection to the District.

[7] "California's Health Care Districts," prepared for the California Healthcare Foundation by Margaret Taylor, April 2006.

This page contains no comments

linked or dependent upon the hospital.[8] The financial relationships between these affiliated organizations are described in more detail in Sections 3 and 5 of this report.

Each of the eight health care districts in California that received more than $5 million in property tax allocations in FY10[9] were affiliated with a non-profit charitable foundation. By contrast, only half of the ten health care districts that had leased or sold their hospitals to a private entity appear to operate a foundation. However, most of those districts offer grant programs directly to the community and not through a third party entity, such as a foundation.

Community Benefit Comparisons

California Health and Safety Code Sections 127340-127365 require private not-for-profit hospitals to plan for and report on the actual provision of community benefits. Each year, hospitals must submit a community benefits report to the Office of Statewide Health Planning and Development (OSHPD), delineating the actual resources contributed toward community benefits programs during the previous year, and presenting the hospital's plan for community benefits programs in the upcoming fiscal year.

As discussed in Section 5, in 2008 the El Camino Hospital Corporation established a Community Benefit Advisory Council as part of an effort to increase community benefits that it provides. According to its 2011 Community Benefit Report[10], the El Camino Hospital provided a total of $54,798,440 of community benefit in FY 2011, $5,039,698 of which was funded directly with District resources, as shown below in Tables 3.2 and 3.3.

Table 3.2
Total Community Benefit Provided by El Camino Hospital in FY 2011

Government-sponsored health care (unreimbursed Medi-Cal care)	**$23,639,790**
Subsidized health services funded through hospital operations	**$20,616,112**
Financial and in-kind contributions	$4,002,154
Traditional charity care funded through hospital operations	**$2,772,576**
Community Health Improvement Services	$1,857,998
Health professions education funded through hospital operations	$1,171,764
Clinical research funded through hospital operations	$402,216
Community benefit operations funded through hospital operations	$185,830
Government-sponsored health care (means-tested programs)	**$150,000**
Total Community Benefit, FY 2011	**$54,798,440**

Source: El Camino Hospital 2011 Community Benefit Report, unaudited financial data

[8] The Governmental Accounting Standards Board (GASB) Statement No. 14 technical summary states, "The definition of the reporting entity is based primarily on the notion of financial accountability" and describes the conditions under which financial accountability may be established.

[9] The FY 2009-10 data is the most recent available from the California State Controller.

[10] El Camino Community Benefit Report, July 2010 – June 2011.

This table should break out specific programs and purposes. This information has been provided.

Is there a source for this conclusion? Why is this discussion relevant if there is no dispute that such costs are community benefits? Sole purpose seems to be to discount the value of the benefit.

As shown in Table 3.2, the vast majority of El Camino Hospital's reported community benefit represents the unreimbursed portion of costs for care provided to Medi-Cal and other uninsured or underinsured recipients, other subsidized health services and charity care (shaded rows in Table 3.2), all of which are quantified using an industry standard ratios of costs to charges. While the provision of unreimbursed care is considered a community benefit by State and federal guidelines, these costs are usually accounted for by expected net revenue formulas that result from payer contracts, and are part of the hospital budgeting of revenue (total charges less contractual adjustments) for their expected payer mix. In other words, anticipated losses from providing unreimbursed care are typically recovered from other payers. The remaining categories of community benefit, including financial and in-kind contributions, community health improvement services, education and research, amounted to less than $8 million in 2011.

The portion of the Hospital's FY 2011 total community benefit of $5,039,698 that was funded by the District, is delineated by category in Table 3.3, below.

Table 3.3
Portion of Community Benefits Funded by the District in FY 2011

Community health improvement services (community health education, community-based clinical services, health care support services) provided at Mountain view location – includes Partners for Community Health (PCH) programs	$1,603,074
Financial and in-kind contributions (cash donations, grants, sponsorships) provided at Mountain View location – includes PCH programs	$3,361,624
Government-sponsored health care (means-tested programs) provided at Mountain View location – includes Healthy Kids, a PCH program	$75,000
Total District-funded Community Benefit in FY 2011	**$5,039,698**

Source: El Camino Hospital 2011 Community Benefit Report unaudited financial data

According the District's financial statements, this contribution is funded entirely by the District's property tax revenue apportionment (see Section 5). In total, the District received $15,793,000 in property taxes during FY 2011, $6,643,000 of which was levied for debt service used to finance improvements to the Mountain View Hospital, $3,368,000 of which was designated to support unspecified capital projects, and the remainder which was designated to support the community benefit program[11].

Due to the following factors, it is not possible to provide a comprehensive State-wide comparison of community benefits provided by healthcare districts. First, small, rural and non-acute hospitals are exempt from the community benefit reporting requirement, which means that a sizable portion of healthcare district hospitals are exempt and do not produce a report. Second, according to OSHPD, several hospitals are delinquent in meeting the reporting requirement. In

[11] The amount of District funded community benefit shown in the Hospital's Community Benefit Report ($5,039,698) differs from that reported in the District's audited financial statements ($5,782,000). The difference is attributable to financial reporting and timing differences.

addition, while some hospitals that are operated by larger health systems provide community benefit reports, data is not disaggregated by individual hospital.

Accordingly, four of the ten healthcare districts that have sold or leased their hospitals to other entities do not produce a community benefit report[12]. Of the remaining six that produce a community benefit report, five do not produce annual financial reports of their own and are instead included on a combined basis in their "parent" health system's financial statements. Therefore, precise comparisons with El Camino Hospital District cannot be made.

Nonetheless, Table 3.4 below shows the community benefit expenses as a percentage of total operating expenses reported by El Camino Hospital and each of the six other district hospitals that produce a community benefit report and are operated by a non-district entity. The most recent available financial statements were used for each hospital (either 2010 or 2011). Three categories of community benefits are presented: (1) the subtotal of uncompensated care, charity care, and other subsidized health care services, (2) the subtotal of all other reported community benefits, including cash and in-kind donations, education, and research, and (3) the total reported community benefit[13]. The operating organization's system-wide community benefit information is shown below each "subsidiary" hospital.

For example, Mark Twain Hospital and Sequoia Hospital are operated by Catholic Healthcare West (CHW) and while each hospital has its own community benefit report, neither hospital has its own financial report. The table shows the individual hospitals' reported community benefit expense, but not overall expense. In order to understand its community benefit investment as a percentage of overall expenses, the Catholic Healthcare West system-wide data is shown below Mark Twain and Sequoia Hospitals. As Table 3.4 on the next page shows, El Camino Hospital's reported proportional community benefit expense is within the range of community benefit investment made by the other five hospital district organizations that report such information. El Camino Hospital reports that 8.2 percent of total operating expenses represent uncompensated/charity care community benefits, while the other five hospitals report uncompensated/charity care community benefits that range between 6.7 percent to 9.3 percent of total operating expenses. For all other types of community benefits (including cash, in-kind donations, education and research), El Camino spends 1.3 percent of total operating expenses, while the other five range from 0.7 percent to 2.4 percent. On an aggregate basis, El Camino Hospital reports a slightly higher proportion of community benefit at 9.5 percent of total operating expenses, with the other five ranging from 7.9 to 9.3 percent.

In addition to comparisons with other hospitals performing services for health care districts, an analysis was conducted to compare El Camino Hospital with other hospitals within the County. However, many of these hospitals do not produce community benefit reports. Therefore, since the major portion of reported community benefits are comprised of contributions to Government Sponsored Health Care and Charity Care, this analysis compared total Medi-Cal Inpatient Days as a percentage of Total Inpatient Days for El Camino and other area hospitals.

[12] Fallbrook, Desert, Mt. Diablo, and Peninsula.
[13] Not including unreimbursed Medicare , which was not consistently reported.

Note that recommendation that District give up control of Hospital Corporation would result in similar lack of public transparency regarding Hospital Corporation

Though the report elsewhere states the District does not distinguish itself, here it fails to disclose that it is the second best by stating it is simply within the range.

In other words, the "best".

Has this metric been used in a service review before? An audit? Any guidance been followed? The Hospital treats all patients without regard to ability to pay. This metric does not take into account the demographics of District residents which is likely the primary factor related to the number of Medi-Cal inpatient days. The report's use of this metric incorrectly insinuates the ratio is under the District or Corporation's control.

This page contains no comments

Table 3.4
Community Benefits Reported by Healthcare District Hospitals That Have Sold or Leased Hospitals to Another Entity

Healthcare District Name	Hospital Name (affiliations shown in parentheses)	Fiscal Year	Operating Expenses	Uncompensated/ Charity Care	Uncompensated/ Charity Care as % of Operating Expenses	Other Community Benefits	Other Community Benefits as % of Operating Expenses
El Camino	El Camino Hospital	2011	577,102,000	47,178,478	8.2%	7,619,962	1.3%
Marin	Marin General Hospital	2010	318,900,333	25,673,633	9.3%	3,984,098	1.2%
Eden Township	Eden Medical Center (Sutter)	2010	(see Sutter)	25,730,000	(see Sutter)	2,295,000	(see Sutter)
	Sutter	2010	8,431,000,000	625,000,000	7.4%	126,000,000	1.5%
Mark Twain	Mark Twain Hospital (CHW)	2010	(see CHW)	2,933,195	(see CHW)	159,806	(see CHW)
Sequoia	Sequoia Hospital (CHW)	2010	(see CHW)	6,433,824	(see CHW)	1,794,795	(see CHW)
	Catholic Healthcare West "CHW"	2011	10,367,804,000	698,902,000	6.7%	248,150,000	2.4%
Petaluma	Petaluma Valley Hospital (St. Joseph)	2010	(see St. Joseph)	9,065,000	(see St. Joseph)	15,000	(see St. Joseph)
	St. Joseph	2011	4,031,603,000	288,834,000	7.2%	30,088,000	0.7%
Grossmont	Grossmont Hospital (Sharp)	2010	unavailable	81,625,224	unknown	2,369,048	unknown
Mount Diablo	John Muir Medical Center (John Muir Health)	2010	unavailable	24,212,000	unknown	15,025,000	unknown
Fallbrook	Fallbrook Hospital	No Community Benefit Report Produced					
Desert	Desert Regional Medical Center (Tenet)	No Community Benefit Report Produced					
Peninsula	Mills-Peninsula (Sutter)	No Community Benefit Report Produced					

Source: Community benefit reports filed with OSHPD and hospital financial statements.

As shown in Table 3.5 on the next page, approximately six percent of ECH inpatient hospital days represented Medi-Cal days at El Camino Hospital, while other area hospitals reported between two percent and 21 percent of inpatient hospital days as Medi-Cal days (excluding Santa Clara Valley Medical Center, which is the County hospital).

See comments regarding Figure 3.1

See fourth comment on page 3-7.

Table 3.5
Medi-Cal Inpatient Days as a Percentage of Total Days
Santa Clara County Hospitals

Facility	Medi-Cal Days	Total Days	% Medi-Cal Days
KAISER FOUNDATION HOSPITAL - SANTA CLARA	1,778	88,874	2%
KAISER FOUNDATION HOSPITAL - SAN JOSE	1,446	50,285	3%
EL CAMINO HOSPITAL	**4,832**	**79,939**	6%
GOOD SAMARITAN HOSPITAL - SAN JOSE	6,783	82,942	8%
STANFORD UNIVERSITY HOSPITAL	18,200	134,394	14%
O'CONNOR HOSPITAL	11,463	59,098	19%
REGIONAL MEDICAL CENTER OF SAN JOSE	11,608	56,433	21%
ST. LOUISE REGIONAL HOSPITAL	2,617	12,496	21%
SANTA CLARA VALLEY MEDICAL CENTER	62,801	123,551	51%
Grand Total	**121,528**	**688,712**	**18%**

Source: OSHPD "Hospital Summary Individual Disclosure Report", Financial and Utilization Data by Payer

Therefore, when analyzing a significant surrogate measure of community benefit provided by hospitals within the County, ECHD provides a lower percentage of Medi-Cal patient days than all but the Kaiser Foundation hospitals in the County and only one-half to one-third of the services that are provided to this population by Stanford University Hospital and O'Connor Hospital.

Findings and Conclusions

El Camino Healthcare District (ECHD) is one of eleven healthcare districts that have sold or leased a hospital to a private corporation. ECHD is unique among these districts because the other ten sold or leased their hospitals to larger multi-hospital systems[14].

ECHD receives the second highest amount of property taxes of any healthcare district in the State, two-thirds of which is spent on capital contributions and debt service and one-third of which is spent on community benefits. The El Camino Hospital community benefit contributions are within the range reported by other hospital district service providers throughout the State, including major, multi-hospital organizations. Within Santa Clara County, El Camino Hospital provides a lower percentage of Medi-Cal Inpatient Days than many area hospitals at six percent, while others provide as much as 21 percent (excluding Santa Clara Valley Medical Center, which is a public hospital).

Overall, although receiving more property taxes than all but one other healthcare district in the State, community benefit contributions of ECHD do not distinguish it from other healthcare districts in the State or hospital operations within the County.

[14] In 2010, Marin Healthcare District regained full control of Marin General Hospital.

Revise to state "In other words, in accordance with GAAP, ECHD makes consolidated financial reports that includes the finances of several related organizations.

Consolidation of financial statements is required by GAAP.

4. Audit of the El Camino Hospital District

El Camino Hospital District and Its Component Units

The El Camino Hospital District (ECHD) is one entity from a financial perspective. In the District's financial statements, the reporting entity is comprised of the primary government ("District"); as well as several non-profit organizations, including the El Camino Hospital Corporation ("Corporation"), the El Camino Hospital Foundation ("Foundation"), and other smaller entities. In other words, for financial reporting purposes, the El Camino Hospital District is a single consolidated organization that includes multiple component units.

Government structure in California is complex, varying in services that are provided, the manner in which services are provided, the relationships with other governmental and non-governmental entities, and legal structure. However, Generally Accepted Accounting Principles (GAAP) provide authoritative guidelines that are used by certified public accountants (CPAs) and other finance professionals when defining governments as financial reporting entities. In essence, substance over legal form is paramount to ensure that an entity is fairly and accurately presenting financial information in accordance with GAAP.

The Government Finance Officers Association (GFOA) of the United States and Canada publishes practical guidance for use by accounting and auditing professionals regarding the implementation of GAAP. GFOA's principal guidance document, known in the CPA profession as the "Blue Book", states:

> "GAAP direct those who prepare financial statements to look beyond the legal barriers that separate these various units to define each government's financial reporting entity in a way that fully reflects the *financial accountability* of the government's elected officials."[1]

Thus, in addition to the primary government, additional entities should be incorporated into financial reports, if established criteria are met, as discussed in detail below. These additional entities are referred to as component units.

Regardless of legal status, the financial activities and balances of component units are either "blended" with the primary government, if their activities are an integral part of the primary government; or presented "discretely" (e.g. separately) from, but with the primary government, if the component unit functions independently of the primary government. For ECHD, the District's independent financial auditors have consolidated the financial data and information of five blended component units with the primary government (i.e., the El Camino Hospital District). Thus, the activities and balances of the Corporation, the Foundation, and the other affiliated entities are construed to be an integral part of the activities and balances of ECHD and are thus reported in the District's financial statements.

[1] Gauthier, Stephen J., Government Finance Officers Association, *Governmental Accounting, Auditing, and Financial Reporting*, 2001, page 51.

Component Unit Criteria

By definition, component units are separate legal entities from the primary government entity. If they were not separate entities, their activities and balances would be indistinguishable from the primary government. According to GAAP, in order to establish whether an entity is a component unit of a primary government, the entity must meet one of three criteria:

- Appointment of the entity's governing board by the primary government;
- Fiscal dependence on the primary government; or,
- When exclusion would lead to misleading financial reporting.

Because the El Camino Hospital District Board members all serve as Board members of the El Camino Hospital Corporation and comprise a voting majority of the Corporation's Board[2], the Corporation meets the definition of a component unit. As the GFOA notes, "membership on dual boards is considered to be the functional equivalent of board appointment."[3]

Of historical note, when the Corporation was initially created in 1992, its Board of Directors consisted of a mix of community members as well as District Board members. As of December 31, 1992, the District transferred or sold $256.6 million in assets and $81.1 million in liabilities to the Corporation, totaling $175.5 million in net assets. However, in 1996, the District prevailed in a lawsuit to regain public control of Corporation activities.

Pursuant to the subsequent settlement agreement, the District was established as the Corporation's sole member, which then reinstated all of the District's elected Board members as the Corporation's Board and added the Hospital's Chief Executive Officer (CEO) as an "ex officio" director. The CEO is hired, and may be terminated by the Hospital Board. As the sole member of the Corporation, the District Board retains the ability to alter the Corporation's Board membership and, therefore, maintains control of, and is accountable for, the Hospital Corporation.

For several years after the District becoming the sole voting member, the Hospital Board consisted of two board members and the CEO as a voting director.

Even if the boards were not the same, there are other characteristics, such as the District's ability to impose its will, financial benefit and financial burden on the Corporation, which link the boards together and create fiscal dependency. Further, the original Articles of Organization for the Hospital Corporation and subsequent amendments stipulate that net assets of the Corporation revert back to the District upon dissolution of the Corporation or termination of the ground lease between the two organizations.

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[2] As described in this section, the Corporation Chief Executive Officer (CEO) serves as an ex officio member of the Corporation Board but does not have voting rights.

[3] Gauthier, Stephen J., Government Finance Officers Association, *Governmental Accounting, Auditing, and Financial Reporting*, 2001, page 56.

What are the benefits and burdens?

Confusing statement since District is in compliance with GAAP. This should explain that District's statements are not misleading since they achieve the purpose of GAAP. Or is the audit's recommendation that the District cease complying with GAAP to better inform the public?

While financial reporting ~~presumes~~ that entities continue indefinitely, and therefore such a reversion clause ~~does~~ not necessarily indicate financial benefit from a financial reporting ~~standpoint~~, in the context of the larger discussion of authority and accountability, the financial benefits and burdens of this relationship are clear. Further, it is these characteristics of financial benefit and burden that link the other, smaller affiliated entities to the District, albeit indirectly through the Corporation.

Importance of Fair Presentation

The purpose of GAAP is to provide a framework to ensure that users of financial statements are provided consistent, accurate and complete financial data and information. To this end, it is critical that financial statements provide a fair presentation of an entity's financial activities and status. Circumstances can arise wherein the failure to report a legally separate entity's activities would result in incomplete, if not misleading, financial statements.

For El Camino Hospital District, the District sold or transferred almost all of its assets and liabilities to the Corporation in 1992. Subsequently, a portion of the financing and debt of the new Hospital during the last decade is also accounted for and reported in the District's discrete financial records and accounts, while the assets are accounted for and reported in the Corporation's discrete financial records and accounts, pursuant to the First Amendment to the Ground Lease Agreement effective November 3, 2004. Accordingly, the District reflects a significant liability of $144.9 million in bonds payable in its financial statements as of June 30, 2011, but no correlated assets. Because there are no assets recorded to offset the debt, net assets for the District, as a discrete entity, are <u>negative</u> $110.4 million. Clearly, to fully understand the finances of the District, users of the financial statements must be presented with the data and information that brings these two components together. Further, to fully communicate the financial accountability structure, it is necessary for the financial statements to disclose that the District and its elected Board of Directors are accountable for the District and its entities, including the construction and financing of the new hospital.

Financial Accounting System and Segregation of Funds

While the consolidated financial statements combine the financial activities and balances of the El Camino Hospital District and its component units, the individual activities and balances of these affiliated entities are segregated in supplemental schedules that are included in the annual financial report. These audited financial schedules for the fiscal year ending June 30, 2011 are appended to this Section as Exhibit 4.1.

The El Camino Hospital District uses a proprietary financial accounting system to account for the financial activities and balances of all of its entities, rather than a traditional government accounting system that is based on fund accounting. The financial accounting system uses a series of accounts to capture data and information and is used to segregate the different entities and their respective financial activities and balances.

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As can be seen in Exhibit 4.1, a separate balance sheet, as well as income statement, or statement of revenues, expenses, and changes in net assets, is presented for the El Camino Hospital District as the primary government, as well as for each of the other five affiliated entities, including the El Camino Hospital Corporation, the El Camino Hospital Foundation, CONCERN (employee assistance program), the El Camino Surgery Center, and Silicon Valley Medical Development, LLC. These schedules provide a significant amount of disaggregated data and information for these entities. From these schedules, a user of financial information can determine that, while operating revenues derived from patient services are earned primarily by the Corporation and the Surgery Center, property tax revenues are accounted for separately in the primary government's income statement. However, this data and information is presented at a high-level. Obtaining financial data and information that is typically reflected in governmental environments is not readily available in the District's or the Corporations public documents. Financial data and information at a more granular level, such as the line-item use of property tax revenues and budget variances, assists in ensuring that public funds are appropriately accounted for and used.

The Corporation serves as the manager and administrator, not only for the Hospital as a nonprofit public benefit corporation, but also for the District, the Foundation, and the additional affiliated entities. Accordingly, all financial transactions and activities occur through the accounts and records of the Hospital. Thus, as will be seen below, the District's resources predominately are transferred to the Hospital for expenditure rather than being reflected directly in the District's discrete financial statements. Thus, it is difficult to discern the details of the transfers and ensure whether the funds were spent on intended purposes from the audited financial statements alone. For this data and information, one must review individual transactions and accounts provided by internal system reports, which is discussed in more detail later in this Section.

District Governance Structure and Public Accountability

The District is governed by a five member elected Board of Directors. As a government entity in California, the District Board is subject to disclosure laws that require open meetings, except in matters involving personnel, public security, pending litigation, labor negotiations or real property negotiations.[4]

Known as the Ralph M. Brown Act, Section 54950 et seq. of the California Government Code extends these requirements to private or non-profit corporations or entities if:

a. It is created by a legislative body to exercise authority that may be delegated to the private corporation or entity §54952(c)(1)(A);

b. If a legislative body provides some funding to the private corporation or entity and appoints one of its members to serve as a voting member of the entity's board of directors §54952(c)(1)(B).[5]

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[4] California Government Code § 54956.6, § 54956.8, § 54956.9 and § 57957.

[5] Ibid.

The Hospital Corporation meets all three of the tests included in the two citations, as follows.

- The Ground Lease between the District and the Corporation stipulates that the Corporation, "shall occupy and use the properties and the improvements thereon for operating and maintaining a community hospital, for providing related health care services, or for the provision of such ancillary or other health care uses as may benefit the communities served by the Tenant and the *Landlord* (emphasis added)."[6] The Management Services Agreement between the District and the Corporation, effective January 1, 1993, describe specific responsibilities of the Corporation in Article 1, *Corporation's Duties*, requiring, "1.1(a) Performance of those activities that are relevant to the operations of the District and directed by the District's Board." Accordingly, the District has delegated a substantial portion of its responsibilities to the Corporation, meeting the test described in Government Code §54952(c)(1)(A).
- As discussed in detail, above, the District transferred or sold approximately $256.6 million in assets and $81.1 million in liabilities to the Corporation in 1992, totaling net assets of $175.5 million. In addition, the District contributes approximately $15.8 million in property taxes annually to pay debt service for the Mountain View campus and support the Hospital's capital expenditures and community benefit program. Thus, providing substantial funding and meeting the first of the two tests required by Government Code §54952(c)(1)(B).
- The Corporation Bylaws state that "The Corporation shall have one voting Member: El Camino Hospital District, a political subdivision of the State of California (the "Member"). The Corporation shall have no other voting members."[7] This meets the second test under Government Code §54952(c)(1)(B).

Therefore, in addition to meeting the tests for being a consolidated financial reporting entity, described previously, the Corporation also appears to meet all three tests described in the two citations from the Brown Act. Since the ECHD Board also serves as the Corporation Board, these two separate legal entities have the same requirements and effectively function identically for purposes of public disclosure and open meetings.

Financial Assessment and Condition

The financial condition of the El Camino Hospital District, the Corporation and the five non-profit affiliated entities ("District and its entities") is good to excellent, as well as stable. Overall, key financial indicators demonstrate that the District and its entities are performing well and were in a relatively strong financial position as of June 30, 2011. For FY 2011-12, the financial condition of the District and its entities is expected to strengthen based on a detailed financial status update presented to the Corporation Board of Directors on February 8, 2012.

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[6] Ground Lease Agreement Between El Camino Hospital District and El Camino Healthcare System Dated: December 17, 1992, Article I, Section 1.2, *Guidelines for Use*

[7] Amended and Restated Bylaws of El Camino Hospital Adopted December 7, 2005, Article II, Section 2.3

Corporation also made cash payments of $31,645,000 to the District and provided indemnities to the District.

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Financial Status as of June 30, 2011

Net assets for the District and its entities totaled $805.4 million as of June 30, 2011, which is an $83.3 million, or 11.5 percent increase from net assets held as of June 30, 2010 and a $335.8 million, or 71.5 percent increase from June 30, 2006. Interestingly, despite the significant asset acquisition over this five year period and an increase in investment in capital assets of 71.9 percent, unrestricted net assets have also significantly increased by 71.6 percent.

Table 4.1
Consolidated Financial Metrics (In thousands)
For the Five Fiscal Years Ending June 30, 2011

	June 30,					July 1,
	2011	2010	2009	2008	2007	2006
Net Assets:						
Invested in Capital Assets	$355,469	$374,598	$ 314,571	$198,162	$282,667	$206,837
Restricted	9,812	5,302	8,166	7,001	201,812	6,173
Unrestricted	440,070	342,178	362,670	424,342	63,879	256,492
Total Net Assets	805,351	722,078	685,407	629,505	548,358	469,502
Available Cash and Investments*	408,703	285,317	396,526	500,733	356,306	252,797
Annual Operating Revenues	622,640	554,793	508,846	460,952	409,960	
Annual Operating Expenses	577,102	550,991	461,351	407,817	364,268	
Net Non-Operating Revenue (Expenses)	37,735	32,869	8,407	28,012	33,164	

* As reported by the District in the Management Discussion and Analysis section (unaudited).

Source: Report of Independent Auditors and Consolidated Financial Statements with Supplemental Information for El Camino Hospital District for the respective fiscal years.

As can be seen in Table 4.1, both revenues and expenses have increased over the last five years. Operating revenues have increased $212.7 million, or 51.8 percent, whereas operating expenses have increase $212.8 million or 58.4 percent since FY 2006-07. However, the increase in operating revenues in the last year was 12.2 percent as compared to 4.7 percent increase in operating expenses, showing an ability to contain costs and improved financial performance. Non-operating revenues are comprised of various components as detailed in Exhibit 4.1. These revenues and expenses include, but are not limited to, property tax revenues, interest expense, and restricted gifts, grants, and bequests from donors. In total, non-operating revenues and expenses are significant, comprising $37.7 million, or 45.3 percent of the $83.3 million increase in net assets in FY 2010-11. Property taxes and investment income (on idle cash balances) represent the major portions of this non-operating revenue, amounting to $15.8 million and $18.6 million (net of interest expense), respectively.

Moody's statement irrelevant to whether District and Corporation are separate legal entities.

Further, the District and its entities maintain a substantial amount of cash and short-term investments, ensuring a high degree of liquidity. Best practices according to the GFOA prescribe, and Bond covenants require the Hospital enterprise to maintain at least 60 days of cash on hand to meet on-going operating requirements. However, the Corporation had approximately 291 days of cash on-hand as of December 31, 2011 and averaged 250 days last fiscal year, which is substantially greater than the Hospital's benchmarks. These average days of cash on hand do not reflect cash and short-term investments held by the District's other entities, which was approximately $26.1 million as of June 30, 2011.

Moody's Investors Service Downgrade

Moody's Investors Service downgraded the Corporation's revenue bond rating from A1 to A2 in May 2011 and cited two primary reasons for the downgrade. Moody's noted significant turnover in executive management along with a significant deterioration in FY 2009-10 operating performance and cash balances due to the Mountain View Hospital rebuild and the Los Gatos Hospital purchase. Moody's noted that it viewed the Los Gatos Hospital purchase as "a fundamental modification of the *District's* core operating strategy"[1] (emphasis added), but also added that the District and its entities' FY 2010-11 financial performance was projected to improve. Moody's therefore classified the District and its entities as stable.

In its rating of the Corporation' revenue bonds, Moody's assesses the District and its entities' financial status, not just the financial accounts and records of the Corporation. Indeed, Moody's noted in its notice of the downgrade that, while property tax revenues used for general obligation bonds and for capital expenditures are excluded from operating revenues, property tax revenues available for operations are considered operating revenues of the Hospital.

Outlook for Fiscal Year 2011-12

District management uses a variety of financial indicators to report on financial status to the Boards of Directors of both the District and the Corporation. These indicators include measures of earnings and operating profitability, liquidity, and debt coverage capacity. For the first six months of FY 2011-12, management reports that all of their key indicators are positive and reflect a strong financial position relative to targets, except for accounts receivable collections. The following Table 4.2 contains these key indicators as of December 31, 2011 as reported to the Boards of Directors by management.

As can be seen in Table 4.2, key financial indicators with the exception of Days in Accounts Receivable are positive relative to Corporation targets as well as the benchmark of Standard and Poor's A+ rating for nonprofit hospitals. The Debt Service Coverage Ratio and Debt to Capitalization Ratio targets are required to be met pursuant to the Corporation's bond covenants and, as shown in the table, these targets are greatly exceeded. As compared to the prior fiscal year, Total Profit Margin has decreased from 10.6 percent to 8.3 percent, still a strong performance and greater than the Hospital's targets.

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Table 4.2
Key Financial Indicators
For the Six Months Ending December 31, 2011

	Year To Date	Target	S&P A+ Hospitals	Fiscal Year 2010-11
Operating Margin	9.4%	7.6%	3.8%	7.9%
Total Profit Margin	8.3%	7.5%	6.0%	10.6%
EBITDA*	18.8%	17.3%	12.9%	16.6%
Days of Cash	291	260	229	250
Debt Service Coverage Ratio	7.4	1.2	n/a	7.0
Debt to Capitalization	17.0%	37.5%	30.9%	18.9%
Days in Accounts Receivable	51.3	50.0	45.3	50.1

* Earnings Before Interest, Taxes, Depreciation and Ammortization.

Source: Summary of Financial Operations, Fiscal Year 2012 – Period 6, 7/1/2011 to 12/31/2011, as presented to the Board of Directors on February 8, 2012.

Days in Accounts Receivable are a measure of an entity's ability to collect receivables and directly impacts cash flow. Given the Corporation's strong cash position, this measure is not signifying financial distress, but rather a measure of internal administrative performance. Management believes that 51.3 days is within a normal range and not an area of concern.

While neither the District nor the Corporation maintains a comprehensive reserve policy, it should also be noted that in the FY 2011-12 budget, additional funds were set aside for contingencies totaling $8.3 million. This is in addition to modest reserves being maintained for the following:

District

- Capital outlay reserve funded by restricted property tax revenues and totaling $6.2 million as of June 30, 2011;
- Capital asset replacement reserve funded at 130 percent of annual depreciation expense totaling approximately $3.1 million as of June 30, 2011;

Corporation

- Operating reserve equal to 60 days of operating expenses totaling $101.6 million as of June 30, 2011;
- Capital asset replacement reserve funded at 130 percent of annual depreciation expense totaling approximately $37.4 million as of June 30, 2011;

Insert: "million" in between "$2.3" and "as"

- Catastrophic loss reserve funded from the Federal Emergency Management Agency reimbursements received after the Loma Prieta earthquake in 1989 totaling $11.8 million as of June 30, 2011;
- Community benefit reserve funded by unrestricted property tax revenues transferred to the Corporation and totaling $4.7 million as of June 30, 2011;
- Malpractice reserve funded based on annual actuarial studies totaling $2.3 as of June 30, 2011;

Other Reserves

- Board-designated reserve held by the Foundation totaling $13.3 million as of June 30, 2011; and
- Board-designated reserve held by CONCERN: Employee Assistance Program totaling $1.0 million as of June 30, 2011.

Financial Benefits Related to Standing as a Public Sector Entity

Property Tax Share

The El Camino Hospital District, as a political subdivision of the State of California, receives property taxes levied upon property owners within District boundaries. The levying and apportionment of these taxes are governed by California Revenue and Taxation Code and conducted by the Santa Clara County Assessor, Tax Collector, and Controller. Property tax revenues received by the District are as follows:

One Percent Ad Valorem Property Tax – The District receives a portion of the one percent ad valorem property tax that is levied in Santa Clara County and within District boundaries. Pursuant to Proposition 13 in 1978 and subsequent modifications to the California Revenue and Taxation Code and Government Code, this revenue source is allocated in an amount that is restricted for capital expenditure and an amount that is unrestricted and may be used to meet the general goals and objectives of the District.[8]

Debt Service on General Obligation Bonds – Voters in the District approved Measure D in November 2003 which authorized $148.0 million in general obligation bonds to assist in financing the construction of the new Mountain View Hospital pursuant to the Hospital Seismic Safety Act of 1994. The annual debt service requirements of the general obligation bonds are met by an additional property tax levied on the property owners within District boundaries.

[8] The District calculates the restricted and unrestricted property tax allocations pursuant to the Gann Appropriations Limit and supporting law which limits appropriations, but excludes qualifying capital expenditures from the limit.

As explained in our cover letter, the District is exempt.

Delete - "far"

The District accounts for these property tax revenues using its chart of accounts described in the previous section and which allows for the District to segregate not only the revenues and expenses of the District, but also the assets and liabilities of the District. Table 4.3 details $75.1 million in property tax revenues received over the last five years.

Table 4.3
Property Tax Revenues (In thousands)
For the Five Fiscal Years Ending June 30, 2011

	Fiscal Year					Five Year
	2010-11	2009-10	2008-09	2007-08	2006-07	Total
One Percent Ad Valorem						
Restricted for Capital Use	$ 3,368	$ 2,830	$ 3,510	$ 3,207	$ 3,046	$ 15,961
Unrestricted	5,782	5,858	5,732	5,403	4,935	27,710
General Obligation Bonds Debt Service	6,643	6,920	6,658	6,181	5,041	31,443
Totals	$ 15,793	$ 15,608	$ 15,900	$ 14,792	$ 13,022	$ 75,115

Source: Report of Independent Auditors and Consolidated Financial Statements with Supplemental Information for El Camino Hospital District for fiscal year 2008-09 through 2010-11 and reports and records provided by management for FY 2006-07 and FY 2007-08.

As noted in the District's Consolidated Financial Statements, property taxes which are levied annually are intended to finance the District's activities within the fiscal year of the levy. However, historically, the District Board has not routinely appropriated available property tax revenues as part of the budget process. Rather, the funds accumulated over time and then were transferred to the Corporation as needed. Table 4.4 presents the use of District revenues, primarily property tax revenues and related interest earnings, for the last five fiscal years.[9] Analysis of data available for this report, suggests that the District may have violated sections of the California Health and Safety Code that require voter approval in the event 50 percent or more of the net assets are transferred to a non-profit hospital. During this period, $40.5 million was transferred to the Corporation, which exceeded the threshold of $29.6 million based on total net assets of $59.1 million in that period. When adjusting for the portion of the net assets that may have represented bond proceeds, approximately 63.9 percent of net assets were transferred, exceeding the 50 percent threshold established in the law.

As can be seen in the table, the District transferred surplus cash to the Corporation of nearly $40.5 million in FY 2006-07 and $12.5 million in FY 2008-09 to assist in financing the construction of the new Mountain View Hospital. Additional transfers for capital expenditures were made in three of the last five fiscal years and totaled approximately $21.2 million. The

[9] In addition to property tax revenues and associated uses, the District also records miscellaneous revenues and expenses, including approximately $80,000 ground lease revenue from the Corporation and funded depreciation expense on assets maintained on the District's books such as the YMCA facility.

Incorrect. We have provided reports and budgets.

delete "resources have not been systematically appropriated in a public forum" – incorrect. all transfers have been authorized by the District Board in public meeting.

District also had approximately $6.2 million in funds earmarked for capital expenditures as of June 30, 2011, which had accumulated from restricted property tax revenues over the last two years (not reflected in Table 4.4). These funds are held as a reserve by the District and not transferred to the Corporation until the capital expenditure is approved by the District Board.

Table 4.4
Property Tax Uses (In thousands)
For the Five Fiscal Years Ending June 30, 2011

	Fiscal Year					Five Year
	2010-11	2009-10	2008-09	2007-08	2006-07	Total
Debt Service						
Interest Payments	$ 4,897	$ 4,859	$ 4,655	$ 98	$ 3,205	$ 17,714
Principal Reduction	1,384	1,223	726	1,813	-	5,146
Community Benefits Transfer	2,025	5,731	5,403	-	500	13,659
Capital Expense Transfer	-	12,458	6,253	-	2,479	21,190
Surplus Cash Transfer	-	-	12,000	-	40,468	52,468
Totals	$ 8,306	$ 24,271	$ 29,037	$ 1,911	$ 46,652	$ 110,177

Source: Various reports and records provided by District and Hospital management for all fiscal years.

In 2008, the Corporation Board established the Community Benefits Advisory Council which was tasked with developing a community grants program to expend property tax revenues and other hospital resources to benefit the community. As can be seen in the table, transfers to the Corporation in amounts commensurate with annual unrestricted property tax revenues began in FY 2008-09. These funds are held by the Corporation on reserve and accrue interest earnings until expended. There is no annual public document detailing the process for how, and how much of these funds have been appropriated to different programs and their expenditure status at any given time. However, management tracks and monitors these funds internally by using its chart of accounts and, as of June 30, 2011, approximately $4.7 million of these funds, while earmarked, had not been expended.

As previously noted, the Corporation maintains an accounting system that tracks and monitors the receipt and use of property tax revenues. However, historically, those resources have not been systematically appropriated in a public forum or at a level of detail that is appropriate for holding the District and/or the Corporation's Board accountable for its use. Table 4.4 above was developed using a variety of internal and public documents, including (1) the audited annual financial report, (2) internal operating statements, statements of cash flow, and system reports of transaction detail, (3) fiscal policy, and (4) additional documentation and explanations from management.

District Board made no decision regarding Los Gatos

Further, in FY 2008-09, District and Corporation boards made considerable policy decisions to fund both the rebuild of Mountain View Hospital and the purchase of the Los Gatos Hospital. To achieve these objectives, the boards also made policy decisions regarding the financing of these acquisitions with a combination of cash and debt issuance. If the Los Gatos Hospital purchase totaling $53.7 million had not occurred, the Corporation would have had additional cash resources available and would have not necessarily needed to use District resources or the issuance of an additional $50.0 million in revenue bonds. As already noted, the Moody's downgrade resulted in part from concern regarding the district and its entities' cash position. Thus, while there is not a direct expenditure of District funds on the Los Gatos Hospital purchase, there is certainly a direct impact on Corporation resources available for the purchase.

Public Debt Financing

The District and its entities have used public debt financing to pay for the construction of the Mountain View Hospital. Public debt financing through the issuance of municipal bonds is advantageous to governmental agencies and not-for-profit organizations because the tax-exempt status makes the cost of borrowing less by reducing interest expense.

The District and its entities used two different mechanisms to obtain financing for the project:

- General obligation bonds totaling $148.0 million issued by the District, as a political subdivision of the State of California, and approved by more than two-thirds of District voters. The principal and interest on these bonds are to be repaid from property taxes levied within District boundaries.
- Revenue bonds totaling $200.0 million issued by the Corporation as a nonprofit public benefit corporation with tax-exempt status pursuant to Internal Revenue Service (IRS) code section 501(c)(3), of which $150.0 million was issued in 2007 and $50.0 million was issued in 2009.

The details regarding each debt issuance are shown in the table on the next page.

The revenue bonds were issued on behalf of the Corporation by the Santa Clara County Financing Authority, which benefits the Corporation due to ease of access to public financing. However, other than the El Camino Hospital issuances in 2007 and 2009, the Santa Clara County Financing Authority typically does not serve as such a conduit to financing for nonprofit public benefit corporations.

As noted previously, the capital assets, e.g. the Hospital facility and related equipment, have been transferred to the accounts and records of the Corporation pursuant to the First Amendment to Ground Lease Agreement effective November 3, 2004. Upon termination of the lease or dissolution of the Corporation, the related assets and liabilities will revert to the District. While the District is not liable for payment of principal and interest on the revenue bonds, if the Corporation were dissolved prior to 2044, when the final payments are due, presumably the District would assume or resolve any outstanding debt liabilities pursuant to the reversion clause in the Articles of Organization for Hospital Corporation.

Table 4.5

Summary of El Camino Hospital District and Corporation Debt

Borrowing Entity	Type and Purpose		Original Issue	6/30/2011 Balance	2012 Principal Due	2012 Interest Due	2012 Total Due	Last Payment Due
ECH District	2006 General Obligation Bonds	MV Hospital Replacement	148,000,000	143,805,000	1,525,000	5,014,000	6,539,000	8/1/2040
ECH Corp.	2007 Revenue Bonds	MV Hospital Replacement (Note 1)	147,525,000					2/1/2041
ECH Corp.	2009 Revenue Bonds	MV Hospital Replacement (Note 1)	50,000,000					2/1/2044
(Note 2)	Total Revenue Bonds		197,525,000	189,675,000	52,725,000	9,208,000	61,933,000	

Note 1: Although the 2007 and 2009 Revenue Bonds were designated for the Mountain View Hospital Replacement project, other major capital projects during this time period included the purchase of Los Gatos Hospital, renovations to surgery recovery areas at the Los Gatos Hospital and the acquisition of a physician office building adjacent to the Mountain View campus.

Note 2: The Principal Due on the Corporation Revenue Bonds declines from $52.7M in 2012 to $2.9M in 2013 because the Hospital's Letter of Credit on the $50,000,000 in 2009 Revenue Bonds expires on April 1, 2012. In this situation, accounting rules require the entire amount to of the debt to be shown as a current liability.

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Report should be clear here that Corporation complies with this.

Computation and Assignment of Community Benefits

An underlying question regarding the mission of the District and the Corporation is the degree to which they provide benefits to the taxpayers of ECHD. Certainly, having hospital and health care services located in the community is the primary benefit, discussed extensively in the Service Review section of this report. However, in addition to these services, public and non-profit hospitals are also expected to contribute to the community in other ways.

California Law Requirements

California's Local Health Care District Law does not contain specific requirements for the provision or reporting of community benefits beyond the broad mandate to provide services for the "maintenance of good physical and mental health in the communities served by the district."[10]

However, legislation passed by the California legislature in 1994, Senate Bill 697[11], requires private not-for-profit hospitals to plan for and report on the provision of community benefits. The primary reason for establishing the community benefit reporting requirement is provided in the text of the law itself:

> "Private not-for-profit hospitals meet certain needs of their communities through the provision of essential health care and other services. Public recognition of their unique status has led to favorable tax treatment by the government. In exchange, nonprofit hospitals assume a social obligation to provide community benefits in the public interest."[12]

The community benefit law requires private not-for-profit hospitals in California to:

a) Conduct a community needs assessment every three years;

b) Develop a community benefit plan in consultation with the community; and

c) Annually submit a copy of its plan to the Office of Statewide Health Planning and Development (OSHPD).

SB 697 defines "community benefit" as "a hospital's activities that are intended to address community needs and priorities primarily through disease prevention and improvement of health status, including, but not limited to, any of the following:

- Health care services, rendered to vulnerable populations, including, but not limited to, charity care and the unreimbursed cost of providing services to the uninsured, underinsured, and those eligible for Medi-Cal, Medicare, California Children's Services Program, or county indigent programs.

[10] California Health and Safety Code, Section 32121 (m)

[11] California Health and Safety Code, Sections 127340-127365

[12] California Health and Safety Code, Section 127340 (a)

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- The unreimbursed cost of services included in subdivision (d) of Section 127340.
- Financial or in-kind support of public health programs.
- Donation of funds, property, or other resources that contribute to a community priority.
- Health care cost containment.
- Enhancement of access to health care or related services that contribute to a healthier community.
- Services offered without regard to financial return because they meet a community need in the service area of the hospital, and other services including health promotion, health education, prevention, and social services.
- Food, shelter, clothing, education, transportation, and other goods or services that help maintain a person's health.

Based on these qualifying community benefit activities, OSHPD requires hospitals to describe in their community benefit plans the activities that the hospital has undertaken in order to address community needs within its mission and financial capacity. SB 697 requires hospitals, "to the extent practicable, assign and report the economic value of community benefits provided in furtherance of its plan." Plans must include (a) mechanisms to evaluate the plan's effectiveness, (b) measurable objectives to be achieved within specified timeframes, and (c) community benefits categorized into the following framework[13]:

(1) Medical care services;

(2) Other benefits for vulnerable populations;

(3) Other benefits for the broader community;

(4) Health research, education, and training programs; and

(5) Non-quantifiable benefits.

Community benefit plans are due to OSHPD 150 days after the end of the hospital's fiscal year. Hospitals under the common control of a single corporation or another entity may file a consolidated report. Certain types of hospitals are exempt from the community benefit reporting requirement, including children's hospitals that do not receive direct payment for services, designated small and rural hospitals, public hospitals including county, district, and the University of California, and other specific hospitals.[14]

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[13] Sections 127350 (d), 127355 (a)-(c)

[14] OSHPD website: http://www.oshpd.ca.gov/HID/SubmitData/CommunityBenefit/FAQ.html

The block quote is inaccurate, must have been pulled from a secondary source. Please replace with actual language or remove quotation marks.

Non-Profit 501(c)(3) Requirements

The Internal Revenue Service (IRS) does not specifically list hospitals as organizations that are exempt under section 501(c)(3) or specially define exempt purposes to include the promotion of health[15]. However, the IRS recognizes that non-profit hospitals may qualify for exemption as a charitable organization. IRS code section 501(c)(3) identifies the qualifying purposes of tax exempt organizations, as follows:

> "charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals. The term *charitable* is used in its generally accepted legal sense and includes relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erecting or maintaining public buildings, monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency."

The IRS requirements for obtaining 501(c)(3) charitable status appear to provide substantial latitude in the manner in which an organization may demonstrate its charitable purpose. The application for exemption (Form 1023) requires applicants to identify their charitable status by type (i.e., church, school, hospital, etc.) and complete a separate schedule specific to that type of organization. Schedule C, for hospitals and medical research organizations, asks several yes or no questions, including whether the organization serves Medicaid and Medicare patients; operates an emergency room; maintains a policy regarding service to patients without an ability to pay; allocates a portion of services for charity patients; and several other questions. However, none of the questions require reporting of number or proportions of "charity" cases.

The questions in Schedule C of the application for tax exempt status reflect the "Community Benefit Standard" established in the IRS Revenue Rulings for the determination of charitable status of hospitals. According to Revenue Rulings 69-545 and 83-157, the Community Benefit Standard includes the following five factors:

a) Whether the governing body of the hospital is composed of independent members of the community;

b) Whether medical staff privileges in the hospital are available to all qualified physicians in the area, consistent with the size and nature of the facilities;

c) Whether the hospital operates a full-time emergency room open to all regardless of ability to pay;

d) Whether the hospital otherwise admits as patients those able to pay for care, either themselves or through third-party payers such as private health insurance or government programs such as Medicare; and

[15] "Hospital Compliance Project Interim Report," Internal Revenue Service, July 19, 2007.

Report should disclose ratio is consistent with reporting by other Districts and Hospitals.

e) Whether the hospital's excess funds are generally applied to expansion and replacement of existing facilities and equipment, amortization of indebtedness, improvement in patient care, and medical training, education, and research.

The IRS states that "the absence of these factors or the presence of other factors will not necessarily be determinative. Likewise, the courts have held in numerous cases that community benefit is a flexible standard based on the totality of the circumstances and that a hospital need not demonstrate every factor to be exempt."[16]

In remarks summarizing the Community Benefit Standard, IRS Commissioner for Tax Exempt and Government Entities Steven T. Miller stated "a hospital must demonstrate that it provides benefits to a class of persons broad enough to benefit the community, and it must show that it is operated to serve a public rather than private interest. In a nutshell, that is the standard – a hospital must show that it benefits the community and the public by promoting the health of that community."[17]

Rationale for Community Benefit Assignment

While the provision and reporting of community benefits for health care districts is broadly defined in State law, the requirements for non-profit corporations are more explicit. However, even these requirements leave non-profit corporations with broad discretion regarding the components of community benefit and how they are defined.

As discussed in Section 3, the El Camino Hospital District and the El Camino Hospital Corporation comply with these broadly defined requirements, and reported approximately $54.8 million in community benefits in its 2011 Community Benefit Report. As explained in that section, $5.1 million of this amount is funded directly by the District with property taxes with the remainder funded from other sources through the Corporation and affiliated non-profit entities.

In addition, of the total $54.8 million community benefit contribution, $47.2 million, or 86.1 percent represents the unreimbursed portion of the cost of care provided to Medi-Cal recipients, other subsidized health services and charity care. While classified as allowable community benefits within both federal and State law, it is important to recognize that the unreimbursed cost of services provided to vulnerable populations is a typical expense of hospitals generally and non-profit hospitals specifically, and is considered when such hospitals develop their rate structures and reimbursement strategies.

[16] "Hospital Compliance Project Interim Report," Internal Revenue Service, July 19, 2007.

[17] "Charitable Hospitals: Modern Trends, Obligations and Challenges," Full Text of Remarks of Steven T. Miller, Commissioner, Tax Exempt and Government Entities, Internal Revenue Service, Before the Office of the Attorney General of Texas, January 12, 2009.

Further, as discussed in Section 3, El Camino Hospital does not distinguish itself as providing extraordinary levels of unsubsidized medical care to vulnerable populations in the County. We make this assertion based on (1) a comparison with other hospital districts in the State, which shows that El Camino hospital falls within the range of community benefit contributions made by hospitals that provide services in other districts; and (2) the amount of care provided to Medi-Cal patients relative to other hospitals within the County of Santa Clara, which shows that El Camino Hospital is the third lowest provider of such services in the County.

LAFCo should seriously consider these factors, in light of the financial data and analysis presented in this section. This data and analysis demonstrates the strong financial position of the Corporation, which held approximately $440 million in net unrestricted assets as of June 30, 2011, built from substantial annual operating surpluses; and, the significant ongoing contributions which the Corporation receives from the District, including over $110 million in property taxes over the last five years.

In addition, LAFCo should consider that only a portion of these community benefits are provided to District residents, even though the taxpayers of the District have underwritten the operations of the Corporation and affiliated non-profit organizations through the initial transfer of hospital assets, property tax contributions, access to low-cost debt financing and other mechanisms, such as below market rent on the ground lease.

Given that the District and the Corporation are one consolidated entity that also combine community benefits, the proportionate share of community benefits received from the Hospital can be applied to residents of the District. As will be discussed in Section 6 of this report, an estimated 60 percent of emergency room services are provided to persons who reside within the approximate SOI, and 40 percent are provided to persons who reside outside of the SOI. For inpatient services, no more than 50 percent of inpatient services are provided to residents within the approximate sphere of influence.

Findings and Statements of Determination

The District and Corporation are one consolidated entity from a governance and financial perspective. Generally Accepted Accounting Principles (GAAP) direct the consolidation for financial reporting because the District, Corporation and other affiliated entities meet very specific criteria. The Corporation also meets very specific criteria detailed in State law which requires compliance with disclosure laws and open meetings, as if the Corporation were a public agency. Additionally, a 1996 restructuring resulting from a lawsuit defined the District as the sole member of the Corporation and effectively ensured public control of Corporation net assets and activities going forward. While the District and Corporation have strived in recent years to make a greater delineation between the two organizations, ultimately the authority and accountability of both District and Corporation Boards of Directors stem from members serving as elected public officials presiding over a political subdivision of the State of California.

Consider related to what decision? SOI change?

This is a very troubling conclusion. It is untenable to provide health care services only to District residents. Harvey Rose appears to believe that the District should not support any clinics, health education, transportation, vaccinations, or other health services unless the service provider turns away people based on zip code of residence. Besides being inhumane, this position has no connection to the District's enabling legislation or any applicable standard.

This discussion is confusing. All District CB dollars are fully traceable. Again, does Harvey Rose believe that the Hospital does not properly provide a community benefit to people served by the District because it does not turn people away? Harvey Rose should provide a list of community benefits provided by other districts that meet the consultant's standard and also provide a list of or examples of possible grantees that only benefit those within certain zip codes. Direct mailing of health education materials may be one such program, but the District believes in its expertise that its CB program is far more effective in improving public health and providing access to health care services.

strike "a governance and"

The Corporation is well served by this relationship, accruing benefits typically reserved for public agencies, including the levying and use of property tax as well as access to municipal financing. Further, at its initiation in 1992, the Corporation received approximately $175.5 million in net assets from the District. Subsequently, the Corporation's strong financial health is better than it would otherwise be and is strengthening, with $440 million in unrestricted net assets as of 6/30/2011. Further, the Corporation continues to receive cash infusions from the District, exceeding $15.5 million annually.

It is clear that the activities of each entity are directly linked to the resources of the other. Accordingly, the assignment of community benefits, through provision of services to the underserved and through provision of services to District residents, is fundamental to the mission of both the District and the Hospital. While the provision of services to the underserved as community benefits are proportionate to other hospital districts in the State, it appears to be lower than many hospitals within Santa Clara County based on a review of Medi-Cal inpatient days. Further, significant hospital services including 40 percent of emergency services and 50 percent of inpatient services are provided to residents outside of the District's sphere of influence. Ultimately, the Local Agency Formation Commission will decide if this service level and associated community benefits are acceptable.

The following findings respond to the specific questions posed by the Santa Clara County LAFCo for the Audit portion of the study:

1. ***Did/does ECHD fund the purchase, operations, or maintenance of the Los Gatos Hospital or other facilities located outside of the District boundaries?***

   The ECHD did not directly fund the purchase, operations or maintenance of the $53.7 million Los Gatos Hospital. However, the Corporation was able to generate sufficient net assets and cash balances to fund the Los Gatos Hospital acquisition due, in part, to: (a) the funding of debt service for the Mountain View campus rebuild, as well as capital improvements at the Mountain View campus, with annual property tax contributions from the District; (b) the transfer of excess property taxes from the District to the Corporation, amounting to approximately $52.5 million over the last five fiscal years; and, (c) access to and the use of tax exempt debt financing through the District and the County of Santa Clara as a 501(c)(3) non-profit Corporation.

2. ***Does ECHD contribute revenue to El Camino Hospital Corporation, which in turn purchased the hospital in Los Gatos or other facilities located outside of the District? If so, what is the purpose of the contributions and how are the funds accounted for?***

   The ECHD contributes revenue to the Corporation each fiscal year, amounting to approximately $110.2 million between FY 2006-07 and FY 2010-11. Of this amount, (a) $21.2 million (19.2%) was used to fund capital improvements at the Mountain View campus; (b) $17.7 million (16.1%) was used to pay principal and interest on debt used to fund renovations at the Mountain View campus; (c) $13.7 million (12.4%) was used to fund

Insert: "a portion of" in between "for" and "the Mountain View campus rebuild,"

for building

1st para ; delete last sentence – the Corporation doesn't get cash infusions for debt service on the G.O. Bonds (it goes directly to the bond trustee), nor does it get "cash infusions" for community benefit funds – it merely acts as the District's agent in dispensing those funds, allowing 100% of District CB funds to be spend on CB programs.

Tax exempt financing is available for any non-profit corporation, financing could have been obtained through another entity.

No. This was to assist in paying for the construction of the new Mountain View Hospital (as noted on page 4-10).

delete "on a cash basis" – GASB requires the District to account on an accrual basis.

community benefits; and, (d) $52.5 million (47.6%) in surplus cash was transferred to the Corporation for no specified purpose. These surplus cash transfers appear to have exceeded the 50 percent threshold established by law, and contributed to the $440.1 million in Unrestricted Net Assets being held by the District, Corporation and affiliated non-profit entities as of June 30, 2011. The funds are accounted for separately in the consolidated financial accounting system maintained by the Corporation.

3. ***Is there a contractual relationship between the District and the El Camino Hospital Corporation? Does the District have an equity interest in the assets of the Corporation? If so, how much? If not, who owns the assets of the Corporation?***

The contractual relationship between the District and the Corporation is defined by:

- The 1992 Asset Transfer Agreement;
- The 1992 Building Sale Agreement;
- The 1992 Ground Lease and First Amendment in year?; and,
- The 1992 Management Services Agreement.

Per the Articles of Organization for the Corporation, and subsequent amendments, the net assets of the Corporation revert back to the District upon corporate dissolution or termination of the lease. However, asset disposition is unclear should the District dissolve and the Corporation continues prior to lease termination.

4. ***Does the District separately account for the receipt and expenditure of property tax revenues in a separate fund, or are such revenues commingled with other ECHD revenues?***

All of the District's revenues, including property tax, interest earnings, and lease payments are separately accounted for in the financial system and reported in the annual financial report. With the exception of debt service, the District's resources are transferred to the Corporation for expenditure, but are tracked and monitored through the use of separate accounts.

5. ***Are the ECHD's funds commingled with the Corporation's Funds?***

No. While District funds are generally transferred to the Corporation for expenditure, they are separately tracked and monitored using separate account coding in the financial system. Therefore, District funds are not "commingled" with the Corporation's funds.

6. ***What measures should ECHD take to establish transparency in the relationship between the ECHD and the El Camino Hospital Corporation?***

The District and the Corporation should establish enhanced budgetary reporting and controls on a cash basis in order to better reflect the use of District resources. This should include detailed reporting of transfers between entities as well as debt service requirements.

7. ***What measures should ECHD take to be more accountable to the public/community that it serves?***

   Budgetary and financial information should be reported on a component unit level (i.e., separate budgets and financial reports for the District, Corporation and each of the five non-profit entities). These budgets should provide character level detail ~~and be reviewed,~~ discussed and adopted by the respective boards at public hearings.

8. ***What are ECHD's current revenue sources and amounts, including proceeds from various bonds and for what purpose are the revenues and bond proceeds used?***

   Primary District revenues include property taxes, interest revenue and lease revenue on the Mountain View land. Proceeds from the sale of the bonds were transferred to the Corporation in prior years for expenditure on the Mountain View expansion and renovation. The District's revenues are used for debt service, transfers to the Corporation for capital acquisition and community benefit grants. See response to Question 1, above; tables 5.3 and 5.4; and, Exhibit 5.1 for a fuller explanation.

9. ***What is the extent and purpose of ECHD's reserves?***

   The District maintains reserves for (a) restricted property tax revenues received but not expended for capital acquisition; and, (b) capital asset replacement, based on accumulated depreciation of existing assets. The Corporation, as the primary operating entity, maintains additional reserves, including a reserve of District funds transferred for community benefit grant programs that have not been expended.

10. ***What is an appropriate/adequate amount of reserves? Does the District have any policies on amount and use of reserves?***

    Other than a requirement to maintain a 60-day operating reserve, there are not any documented policies or procedures on District or Corporation reserves. However, all reserves presently maintained by the Corporation are conservative. However, the District should seek guidance from the Government Finance Officers' Association (GFOA) and the Corporation should seek guidance from industry groups to develop reserve policies based on best practices.

11. ***Does ECHD have a role in governance/monitoring of hospital services provided by the El Camino Hospital Corporation?***

    Yes. The District and Corporation maintain almost identical governing boards, which include identical voting members, so that decision-making is almost indistinguishable between entities. In addition, pursuant to the Corporation Articles of Organization and subsequent amendments, the District is the "sole member" of the Corporation. Essentially, from a governance standpoint, the District and the Corporation are the same entity.

Insert: "Subject to coordinated governance" after "are" and in place of "the same entity". Also, as previously noted, the boards are not identical.

Replace with "The District and the Corporation have policies on reserves. [Policy 45.00] The policies call for a funded depreciation account, a 60-day operating reserve, and such other surplus cash as is needed to keep an "A" rating by hospital bond rating agencies, which is 229 days of operating expenses."

These budgets are already approved at public hearings.

This page contains no comments

12. What is ECHD's role and responsibility at the end of the lease agreement between the ECHD and the El Camino Hospital Corporation, as it relates to the assumption of assets and liabilities of the Corporation?

At the end of the lease agreement in the year 2044, the Amended Agreement states that the related buildings, fixtures, and improvements revert back to the District. Unstated is the disposition of any retained earnings or the transfer of other assets and liabilities. However, per the Articles of Incorporation and subsequent amendments, upon dissolution of the Corporation, all assets and liabilities (i.e., net assets, including retained earnings) would revert back to the District.

This page contains no comments

5. El Camino Hospital District Service Review

As stated in Santa Clara County LAFCo's Service Review Policies, municipal service reviews "are intended to serve as a tool to help LAFCo, the public and other agencies better understand the public service structure and evaluate options for the provision of efficient and effective public services." Based on the information provided through the Service Review process, LAFCo may choose to initiate boundary changes or take other actions to reorganize services based on the service profile, sphere of influence (SOI) and other considerations.

The Cortese Knox Hertzberg Local Government Reorganization Act of 2000[1] (CKH Act) requires LAFCo to conduct a municipal service review prior to defining a new SOI, updating an existing SOI or modifying boundaries. The CKH Act requires a LAFCo to "include in the area designated for service review the county, the region, the sub-region, or any other geographic area as is appropriate for an analysis of the service or services to be reviewed, and shall prepare a written statement of its determinations with respect to each of the following:

(1) Growth and population projections for the affected area.

(2) Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.

(3) Financial ability of agencies to provide services.

(4) Status of, and opportunities for, shared facilities.

(5) Accountability for community service needs, including governmental structure and operational efficiencies.

(6) Any other matter related to efficient or effective service delivery, as required by commission policy.

Service reviews must be conducted by LAFCo every five years. The last Service Review of the El Camino Hospital District was completed in October 2007 and the current service review must be completed prior to January 1, 2013. This section of the report provides a general discussion of the service area boundaries, sphere of influence and populations served by the El Camino Hospital District; as well as analysis of service review data that may be considered by the LAFCo Board in accordance with the objectives of the process.

[1] California Government Code Sections 56000-57550.

Health Care District Service Area Boundaries

Local health care districts are distinct from other types of special districts because they are permitted to serve individuals residing both inside and outside of the boundaries of the district. Throughout the Health and Safety Code sections that apply to health care districts,[2] broad service permissions are provided that allow activities for the "benefit of the employees of the health care facility or residents of the district"; "for the benefit of the district and the people served by the district"; and, "in the communities served by the district." This emphasis on populations or communities "served" by a district, rather than populations residing within the boundaries of the district, have generally been interpreted to allow health care districts to extend their influence well beyond jurisdictional boundaries.

For example, Health and Safety Code Section 32121(j) allows health care districts "to establish, maintain, and operate, or provide assistance in the operation of one or more health facilities or health services…at any location within or without the district for the benefit of the district and the people served by the district." Unlike water or sewer districts, which are restricted to providing services at permanent physical addresses, this broad language (i.e., "people served by the district") does not restrict services to a specific territory and, instead, allows health care districts to serve individuals who reside outside of the district boundaries and in other parts of the region, state, or even nation.

Profile of El Camino Hospital Corporation Services

El Camino Hospital is a full service acute care hospital located on a 41-acre campus in Mountain View, California. The campus in Mountain View includes the main hospital, the Women's Hospital, the El Camino Surgery Center, the Breast Health Center, the Oak Dialysis Center, the CyberKnife Center, the Cancer Center in the Melchor Pavilion, the Fogarty Institute, the Taft Center for Clinical Research, and the Genomic Medicine Institute. El Camino Hospital Corporation (ECHC) also owns the El Camino Surgery Center, LLC, and Silicon Valley Medical Development, LLC, and has 50 percent ownership of Pathways HomeCare and Hospice.

El Camino Hospital is licensed for 374 General Acute Care beds and 25 Psychiatric beds, for a total of 399 beds, based on data available from the California Office of Statewide Health Planning and Development (OSHPD). The table on the next page displays the number of licensed beds and patient days for the ECH Mountain View hospital, and calculates the average daily census and percent utilization by unit.

As shown in the table, El Camino Hospital had an average daily census of approximately 193.8 patients in 2010, the year of the most recent available information. General Acute Care utilization (defined as percent occupancy of licensed beds) was 46.3 percent, with the highest utilization in Perinatal (Obstetric) at 65.2 percent and Intensive Care at 7[illegible] percent. The Hospital's Acute Psychiatric unit had a utilization rate of 82.8 percent.

[2] California Health and Safety Code, Section 32000, et seq., also known as the Local Health Care District Law.

Delete: "the Fogarty Institute" - it is a lessee and not part of ECH.

Insert "El Camino Hospital Mountain View Campus is licensed for 374…" Add a new second sentence "Ninety-nine of the licensed 374 general acute care beds of located in the old hospital tower and are not available for use; they will be deleted from the license as of December 31, 2012."

Insert "General Acute Care utilization (defined as percent occupancy of licensed beds) was 46.3 percent (but 63.0% if the 99 unavailable beds are excluded),…"

change Table 5.1 to change medical/surgical beds to 180 (and percent utilization to 63.2%) and add a line showing 99 beds as "unavailable"

Table 5.1
El Camino Hospital Inpatient Capacity and Utilization by Unit - 2010

Unit	Licensed Beds	Patient Days	Average Daily Census	Percent Utilization
Medical/Surgical	279	41,490	113.7	40.8
Perinatal (Obstetric)	44	10,458	28.7	65.2
Pediatric	7	123	0.3	4.2
Intensive Care	24	6,836	18.7	77.8
Neonatal ICU	30	4,297	11.8	39.3
General Acute Care	**374**	**63,204**	**173.2**	**46.3**
Acute Psychiatric	25	7,542	20.7	82.8
Total Beds	**399**	**70,746**	**193.8**	**48.6**

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

The El Camino Hospital Emergency Department has a "basic" level designation with 28 emergency medical treatment stations. In 2010, the ECH Emergency Department had a total of 40,877 patient visits. The Mountain View campus also has ten operating rooms, with two licensed for cardiac surgery. These operating rooms generated over 6,000 surgical procedures in 2010. Two cardiac catheterization laboratories provided 1,625 diagnostic and therapeutic catheterization procedures in that same year. The utilization data for each major service is provided in Table 5.2, below.

Table 5.2
El Camino Hospital Mountain View - General Utilization Statistics - 2010

Type	Volume
General Acute Discharges	15,244
Psychiatric Discharges	994
Total Inpatient Discharges	16,238
Total Emergency Department Visits	40,877
Inpatient Surgery	4,384
Ooutpatient Surgery	1,751
Total Live Births	4,139
Cardiac Surgery	231
Cardiac Catheterization (Diagnostic and Therapeutic)	1,625

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

This entire analysis appears to be premised on the wrong # of beds for ECH.

Present Utilization and Capacity by Service

Countywide and El Camino Hospital Medical-Surgical and ICU/CCU Beds

Within Santa Clara County there were a total of 2,041 Medical-Surgical and 379 Intensive care Unit/Cardiac Care Unit (ICU/CCU) beds in 2010, with a 61.8 percent and a 63.9 percent average occupancy rate in the year. While the intensive care beds at the Mountain View campus of ECH may have been near maximum capacity in that year, there is sufficient capacity in the County overall. Based on the 2010 data, at a target 85 percent occupancy rate, there are an additional 472 Medical-Surgical beds and 80 ICU/CCU beds available in Santa Clara County (including underutilized bed capacity at the El Camino Hospital Mountain View campus. Data for each hospital is shown in Table 5.3, below.

Table 5.3
Santa Clara County Medical-Surgical and ICU/CCU
Licensed Beds, Average Census and Occupancy by Hospital - 2010

	IP Medical/Surgical				ICU/CCU Services			
Facility	Licensed Beds	Patient Days	Avg Daily Census	Occupancy	Licensed Beds	Patient Days	Avg Daily Census	Occupancy
EL CAMINO HOSPITAL	279	41,490	114	40.7%	24	6,836	18.7	78.0%
EL CAMINO HOSPITAL LOS GATOS	82	7,863	22	26.3%	15	1,331	3.6	24.3%
GOOD SAMARITAN HOSPITAL-SAN JOSE	152	40,334	111	72.7%	43	9,868	27.0	62.9%
KAISER FND HOSP - SAN JOSE	175	39,776	109	62.3%	24	4,814	13.2	55.0%
KAISER FND HOSP - SANTA CLARA	185	57,825	158	85.6%	38	8,255	22.6	59.5%
LCP CHILDRENS HOSP. AT STANFORD	35	8,287	23	64.9%	44	11,896	32.6	74.1%
OCONNOR HOSPITAL - SAN JOSE	210	32,650	89	42.6%	22	5,047	13.8	62.9%
REGIONAL MEDICAL OF SAN JOSE	150	43,340	119	79.2%	34	9,084	24.9	73.2%
SANTA CLARA VALLEY MEDICAL CENTER	234	71,876	197	84.2%	52	10,943	30.0	57.7%
ST. LOUISE REGIONAL HOSPITAL	48	9,322	26	53.2%	8	1,624	4.4	55.6%
STANFORD HOSPITAL	491	107,936	296	60.2%	75	18,739	51.3	68.5%
Grand Total	2,041	460,699	1,262	61.8%	379	88,437	242.3	63.9%

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

Countywide and El Camino Hospital Obstetrics and Neonatal Intensive Care Unit Beds

Within Santa Clara County there were a total of 440 Obstetrics and 256 Neonatal Intensive Care Unit (NICU) beds in 2010, with a 42.3 percent and a 57.1 percent average occupancy rate in the year. At 65.1 percent occupancy, El Camino Hospital had a higher rate of utilization than all other hospitals in the County, which averaged 42.3 percent overall (including El Camino Hospital - Mountain View). NICU occupancy was near the average for the County. Based on the 2010 data, at a target 85 percent occupancy rate, there are an additional 188 Obstetrics beds and 72 NICU beds available in Santa Clara County (including underutilized bed capacity at the El Camino Hospital Mountain View campus). Data for each hospital is shown in Table 5.4, below.

Page:43

This table includes the unavailable 99 beds.

Table 5.4
Santa Clara County Obstetrics and NICU
Licensed Beds, Average Census and Occupancy by Hospital - 2010

Facility	Obstetrics				NICU			
	Licensed Beds	Patient Days	Avg Daily Census	Occupancy	Licensed Beds	Patient Days	Avg Daily Census	Occupancy
EL CAMINO HOSPITAL	44	10,458	28.7	65.1%	20	4,297	11.8	58.9%
EL CAMINO HOSPITAL LOS GATOS	14	1,277	3.5	25.0%	2	404	1.1	55.3%
GOOD SAMARITAN HOSPITAL-SAN JOSE	69	8,937	24.5	35.5%	51	10,876	29.8	58.4%
KAISER FND HOSP - SAN JOSE	31	4,381	12.0	38.7%	12	1,314	3.6	30.0%
KAISER FND HOSP - SANTA CLARA	52	10,395	28.5	54.8%	26	6,002	16.4	63.2%
LCP / STANFORD	32	8,287	22.7	71.0%	89	22,359	61.3	68.8%
OCONNOR HOSPITAL - SAN JOSE	65	8,439	23.1	35.6%	10	1,665	4.6	45.6%
REGIONAL MEDICAL OF SAN JOSE	37	1,165	3.2	8.6%	6	264	0.7	12.1%
SANTA CLARA VALLEY MEDICAL CENTER	80	12,870	35.3	44.1%	40	6,146	16.8	42.1%
ST. LOUISE REGIONAL HOSPITAL	16	1,645	4.5	28.2%	-	-	0.0	0.0%
Grand Total	440	67,854	185.9	42.3%	256	53,327	146.1	57.1%

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

On a Countywide basis, El Camino Hospital provides about 9.4 percent of total inpatient services. For Medical/Surgical (9.0%), ICU/CCU (7.7%) and NICU (8.1%), the Hospital provides a lower proportion of services than the 9.4 percent overall. For Obstetrics, the Hospital provides 15.4 percent of the services in the County. It is interesting to note that while ECH has 11.8 percent of all licensed beds in the County, it has 15.2 percent of excess capacity. This is displayed in the table, below.

Table 5.5
Countywide Comparison of Capacity and Utilization

Service Capacity	Average Daily Census		Percent
	Countywide	ECH-MV	
IP - Medical/Surgical	1,262.2	113.7	9.0%
ICU/CCU Services	242.3	18.7	7.7%
Obstetrics	185.9	28.7	15.4%
NICU	146.1	11.8	8.1%
Total Utilization	1,836.5	172.9	9.4%
Licensed Beds	3,116.0	367.0	11.8%
Excess Capacity/(Deficiency)	1,279.5	194.1	15.2%
Percent Utilization	58.9%	47.1%	

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

Emergency Services

El Camino Hospital (Mountain View) has 28 Emergency Department stations, or about 12% of total available emergency department stations in Santa Clara County. In 2010, the Mountain View campus had 40,877 Emergency Department visits, equating to an average of 1,460 visits per station during the year. El Camino Hospital also publishes average estimated wait times at their two emergency departments that range between eight and 40 minutes (based on random sampling conducted between 8AM and 10PM on various days in February 2012).

Emergency departments with lower average acuity visits, such as the Santa Clara Valley Medical Center (SCVMC) facility, tend to have significantly higher visit rates per station and also have lower admission rates to total visits.[3] El Camino Hospital - Los Gatos and the St. Louis Regional Hospital had zero hours on diversion, which suggests some capacity remaining in the county's emergency departments. Table 5.6 displays emergency room activity in the county.

Table 5.6
Santa Clara County Emergency Department
Visits and Admissions by Hospital - 2010

Facility	ED Level	Stations	Total ED Visits	Visits / Station	Hours on Diversion	Visits (No Admits)	Visits (Admitted)	% Admitted
EL CAMINO HOSPITAL	Basic	28	40,877	1,460	172	33,975	6,902	16.9%
EL CAMINO HOSPITAL LOS GATOS	Basic	10	11,398	1,140	-	10,206	1,192	10.5%
GOOD SAMARITAN HOSPITAL-SAN JOSE	Basic	25	51,447	2,058	109	42,408	9,039	17.6%
KAISER FND HOSP - SAN JOSE	Basic	28	47,319	1,690	5	40,108	7,211	15.2%
KAISER FND HOSP - SANTA CLARA	Basic	32	57,478	1,796	40	48,418	9,060	15.8%
OCONNOR HOSPITAL - SAN JOSE	Basic	23	43,507	1,892	235	36,108	7,399	17.0%
REGIONAL MEDICAL OF SAN JOSE	Basic	33	59,069	1,790	392	50,737	8,332	14.1%
SANTA CLARA VALLEY MEDICAL CENTER	Comprehensive	24	74,754	3,115	951	63,685	11,069	14.8%
ST. LOUISE REGIONAL HOSPITAL	Basic	8	28,077	3,510	-	25,678	2,399	8.5%
STANFORD HOSPITAL	Basic	31	49,038	1,582	202	39,129	9,909	20.2%
Grand Total		242	462,964	1,913	2,106	390,452	72,512	15.7%

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

Growth and Population Projections

Using data from OSHPD on actual inpatient hospital utilization by age cohort for Santa Clara County, the projected demand for inpatient acute care can be estimated by multiplying population projections for each age cohort times the utilization rate. OSHPD 2010 discharge data indicates that:

- Children under the age of 18 are admitted for acute inpatient care at a rate of approximately 41 discharges per 1,000 population (excluding normal newborn cases);
- Adults between the ages of 18 and 64 are admitted for acute inpatient care at a rate of approximately 65 discharges per 1,000 population;
- Adults age 65 and above are admitted for acute inpatient care at a rate of approximately 216 discharges per 1,000 population, or approximately 3.3 times the rate of adults under the age of 65;

[3] Acuity level is based on a distribution procedure codes for "minor", "low", "moderate" and "severe" classifications. The Santa Clara Valley Medical Center Emergency Department is the only comprehensive emergency department in the County, offering a full range of tertiary emergency care. However, because uninsured patients in the County tend to use the SCVMC Emergency Department for non-emergency urgent care, the average acuity level of the patients and rate of hospital admissions are lower.

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why is this metric used, normally demand is measured by inpatient days/1,000? As the population ages the Report's metric becomes less correlated with needed bed days as the average length of inpatient care increases.

- Overall, the rate of acute inpatient care for the entire County population is approximately 78 discharges per 1,000 population.

On an aggregate basis, the Santa Clara County population is expected to grow by approximately 5.0 percent over the next five-year horizon between 2012 and 2017; and, by approximately 7.1 percent over the next seven-year projection horizon between 2012 and 2019. However, these projection rates are not constant by age cohort and an examination of the segregated data illustrates that the rate of growth will differ by age cohort.

This is an important consideration when projecting the rate of growth in acute inpatient care, since persons over the age of 65 are admitted at a rate over three times as high as other adults and more than five times as high as children. This segregation of population projections by age cohort is displayed in the table, below.

Table 5.7
Santa Clara County 5-Year and 7-Year Population Projections by Age Cohort

Age Group	2012	2013	2014	2015	2016	2017	2018	2019	5 yr % Change	7 yr % Change
0-17	436,535	432,100	427,710	423,365	419,064	414,806	410,592	406,421	-5.0%	-6.9%
18-64	1,174,723	1,189,807	1,205,084	1,220,557	1,236,230	1,252,103	1,268,180	1,284,464	6.6%	9.3%
65+	216,370	223,923	231,739	239,828	248,200	256,864	265,830	275,109	18.7%	27.1%
All Pop	1,828,573	1,846,466	1,864,533	1,882,777	1,901,200	1,919,803	1,938,588	1,957,556	5.0%	7.1%

Therefore, assuming constant utilization rates and population projections by age cohort, Santa Clara County is expected to generate approximately nine percent more inpatient care volume over the next five year period and 13.0 percent more inpatient care volume over the next seven year period. The basis for these projections are shown in the table, below.

Table 5.8
Santa Clara County 5-Year and 7-Year Inpatient Volume Projections by Age Cohort

Age Group	2012	2013	2014	2015	2016	2017	2018	2019	5 yr % Change	7 yr % Change
0-17	17,776	17,596	17,417	17,240	17,065	16,891	16,720	16,550	-5.0%	-6.9%
18-64	76,773	77,759	78,757	79,769	80,793	81,830	82,881	83,945	6.6%	9.3%
65+	46,704	48,335	50,022	51,768	53,575	55,445	57,381	59,384	18.7%	27.1%
All Pop	143,266	145,702	148,210	150,792	153,449	156,184	159,000	161,898	9.0%	13.0%

Application of Countywide Projections to the El Camino Hospital District and SOI

The District and SOI contain about 1/6th of the population of Santa Clara County. Using available population data sorted by zip code, this analysis determined that the overall population growth rate for the District is slightly more than half of the growth rate for the rest of the county. The District and SOI also has a significantly smaller proportion of the population that are seniors aged 65 and above. The results of this analysis are provided in the tables, below.

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Table 5.9
El Camino Hospital District and SOI 5-Year and 7-Year Population Projections by Age Cohort

Age Group	2012	2013	2014	2015	2016	2017	2018	2019	5 yr % Change	7 yr % Change
0-17	67,890	68,359	68,832	69,308	69,788	70,270	70,756	71,246	3.5%	4.9%
18-64	198,587	198,703	198,819	198,935	199,051	199,168	199,284	199,401	0.3%	0.4%
65+	42,643	43,787	44,961	46,167	47,405	48,676	49,981	51,321	14.1%	20.3%
All Pop	**309,190**	**310,896**	**312,612**	**314,337**	**316,072**	**317,816**	**319,569**	**321,333**	**2.8%**	**3.9%**

As seen, using the same methodology as was used for the entire county, the District and SOI are expected to experience a five-year population growth rate of 2.8 percent compared with a Countywide population growth rate of approximately 5.0 percent. Also, as shown below, because of the differences in the populations by age cohort, the area will experience a lower 5.8 percent inpatient volume increase compared with a 9.0 percent inpatient volume increase for the County overall. Over seven years, the District and SOI inpatient volume is projected to increase by approximately 8.3 percent.

Table 5.10
El Camino Hospital District and SOI 5-Year and 7-Year Inpatient Volume Projections by Age Cohort

Age Group	2012	2013	2014	2015	2016	2017	2018	2019	5 yr % Change	7 yr % Change
0-17	2,765	2,784	2,803	2,822	2,842	2,861	2,881	2,901	3.5%	4.9%
18-64	12,979	12,986	12,994	13,001	13,009	13,016	13,024	13,032	0.3%	0.4%
65+	9,205	9,452	9,705	9,965	10,233	10,507	10,789	11,078	14.1%	20.3%
All Pop	**24,948**	**25,221**	**25,502**	**25,789**	**26,083**	**26,385**	**26,694**	**27,011**	**5.8%**	**8.3%**

With the exception of ICU beds, it is unlikely that this growth in local demand will lead to capacity concerns at the Mountain View hospital in the next five years. In addition, current facility plans under consideration for the Mountain View campus include the possibility of relocating physician offices in the Women's Hospital to make approximately 40,000 square feet available for inpatient use in 2013-2014[4].

Services Provided by Geography

Nearly all of the El Camino Hospital Corporation services are provided at the two main campuses in Mountain View or Los Gatos. The services provided outside of the El Camino Hospital District and its sphere of influence are the Los Gatos operations and two off-campus dialysis centers located in San Jose. A listing of the facilities owned or leased by the Hospital Corporation; and, a map of the areas served by the two hospital campuses, including the location of the two hospitals and the off-site dialysis centers, are provided below and on the next page.

[4] ECHC Exhibit XXII – "Land Uses and Facility Plans for El Camino Hospital, Nov. 19, 2010 with 2011 Updates"

Figure 5.1
Listing of Properties Used by El Camino Hospital Corporation[5]

Name	Street and/or Business Address	City	Land Owner	Building Owner	Leased By	Note
Main Campus						
El Camino Hospital	2500 Grant Road	Mountain View	ECHD	ECH		Main ECH Campus
New Main Hospital	2500 Grant Road	Mountain View	ECHD	ECH		
Old Main Hospital	2500 Grant Road	Mountain View	ECHD	ECH		
YMCA/Park Pavilion	2400 Grant Road	Mountain View	ECHD	ECHD		
Willow Pavilion	2480 Grant Road	Mountain View	ECHD	ECH		
ECH Women's Hospital	2485 Hospital Drive	Mountain View	ECHD	ECH		
Melchor Pavilion	2490 Hospital Drive	Mountain View	ECHD	ECH		
Oak Pavilion	2505 Hospital Drive	Mountain View	ECHD	ECH		
North Drive Parking Garage	North Drive	Mountain View	ECHD	ECH		
Higgins Property	530 South Drive	Mountain View	ECHD	ECHD		Road Runners Transportation Service
Radio Surgery Center	125 South Drive	Mountain View	ECH	ECH		Radiation Treatment Facility
Phyllis Property	111 El Camino Real	Mountain View	ECHD	N/A		Vacant Land
Hospital Drive MOB # 2	2500 Hospital Drive	Mountain View	ECH	ECH		Medical Office - Leased
Hospital Drive MOB # 10	2500 Hospital Drive	Mountain View	ECH	ECH		Medical Office - Leased
Hospital Drive MOB # 11	2500 Hospital Drive	Mountain View	ECH	ECH		Medical Office - Leased
Hospital Drive MOB # 12	2500 Hospital Drive	Mountain View	ECH	ECH		Medical Office - Leased
Hospital Drive MOB # 14	2500 Hospital Drive	Mountain View	ECH	ECH		Medical Office - Leased
Cook Property	2660 Grant Road	Mountain View	N/A	N/A	ECH	Senior Center / BHS Clinic
Concern Office	1503 Grant Road	Mountain View	N/A	N/A	ECH	Employee Assistance Program
Wolfe Properties	205/285 South Drive	Mountain View	N/A	N/A	ECH	Medical Office Leased / ECH Facilities
Off-Campus from Main Mountain View Hospital						
El Camino Hospital Los Gatos	815 Pollard Dr	Los Gatos	ECH	ECH		Los Gatos Campus
In-Patient Rehab	355 Dardanelli Ln	Los Gatos	ECH	ECH		
Parking Stucture		Los Gatos	ECH	ECH		
555 Knowles Building	555 Knowles	Los Gatos	N/A	N/A	ECH	OP Rehab / Offices
825 Pollard Building	825 Pollard Dr	Los Gatos	N/A	N/A	ECH	BHS Clinic
Evergreen Dialysis	2230 Tully Rd	San Jose	N/A	N/A	ECH	Dialysis Clinic
Rose Garden Dialysis	999 W Taylor St	San Jose	N/A	N/A	ECH	Dialysis Clinic

Source: ECHD Exhibit XII: El Camino Hospital Properties, Dec. 23, 2011

As shown, many of the facilities used by the El Camino Hospital Corporation are located outside of the District's boundaries and sphere of influence. This creates a dilemma for the District. For example, Although the Corporation is a separate legal entity, as discussed in Section 4, the ECHD is the "sole member" of the El Camino Hospital Corporation. As structured, the elected District Board members sit as the only voting members of the Corporation Board. Therefore, any activities of the Corporation are, by extension, activities of the District. Given this interpretation of the relationship between the two entities, the acquisition and opening of the Los Gatos Hospital extends the range of District services well beyond its current jurisdictional boundaries and sphere of influence.

Further, although providing dialysis services outside of the physical boundaries of the District is consistent with State law [Health and Safety Code § 32121(j)] and with the broader mission of the District and Hospital; however, the location of these centers in East San Jose (2230 Tully Road) and Central San Jose (999 West Taylor Street) is questionable.

[5] El Camino Hospital District Exhibit XII: El Camino Hospital Properties, December 23, 2011

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Delete: "many"

Insert: "7 of over 20"

Insert: "and existed at time of 2007 review."

As noted, this is just an interpretation and not one that is correct legally.

Insert - some

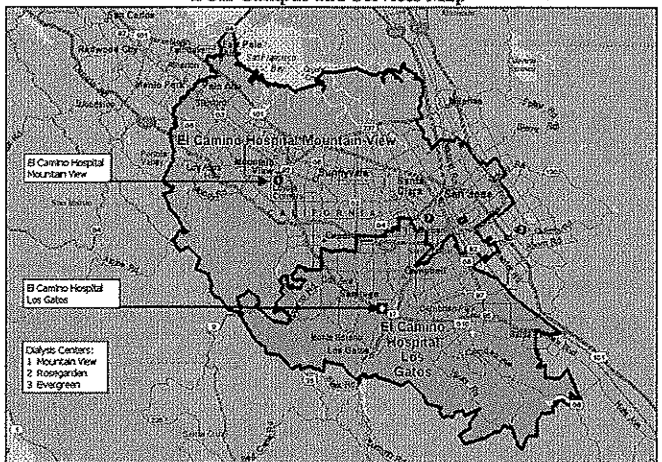
Para below Figure 5-1 – "As structured, the elected District Board members sit as [delete – "the only"] voting members...

Delete - "well"

Insert - ", though it is consistent with State law."

delete "although" and "is questionable" – El Camino Hospital opened these two centers more than twenty years ago, when dialysis was a new service and not readily available in the county; LAFCO has never found this questionable in past service reviews.

Figure 5.1
ECH Campus and Services Map[6]



District Boundaries and Patient Origin

The map included as Figure 5.3 illustrates the boundaries of the El Camino Hospital District as presented by Santa Clara County LAFCo during the Service Review. As shown by the map, LAFCO has recognized that El Camino Hospital provides substantial services beyond its jurisdictional boundaries into areas of Cupertino and Sunnyvale.

As will be demonstrated later in this section, the Mountain View campus of El Camino Hospital draws about 43 percent of its inpatient volume from zip codes that are wholly within the SOI.[7] Including zip codes for all of Cupertino and Sunnyvale yields a catchment of 50 percent of inpatient volume from these areas. Another 38 percent originates from the rest of Santa Clara County, and the remaining 12 percent originates from other counties and beyond. This analysis is displayed in the table on Page 5-12.

Figure 5.3

[6] ECH Exhibit XXII – Land Uses and Facility Plans for El Camino Hospital, "Facilities Development and Real Estate Plan, Nov. 19, 2010 with 2011 Updates"

[7] Two analyses were conducted to determine the percentage of patients that are drawn from the District and SOI. The first analysis only counted those patients who resided in zip codes areas that were entirely within the District and SOI, showing that 37.5 percent of the patient count resides in the SOI. However, this methodology results in an under-count. The methodology used in the report analysis showing a 50 percent rate includes zip code areas that are partially – but not entirely – in the SOI, which results in an over-count. To be conservative, this second methodology is used in the report and is consistent with the approach used by El Camino Hospital.

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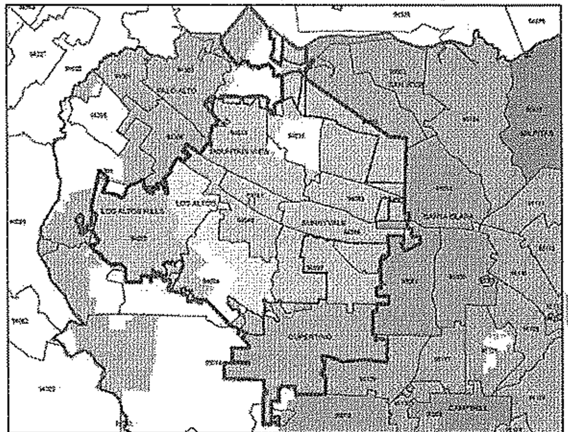
Santa Clara County LAFCo Map of El Camino Hospital District and Sphere of Influence



Map Legend
Red – District boundary
Blue – Sphere of Influence[8]
Green – Santa Clara County

As further illustrated in Table 5.11, and as discussed more fully later in this section, El Camino Hospital consistently captures about a 40 percent market share within its boundaries and throughout its sphere of influence. Beyond its SOI, market share declines significantly due to the strength of other hospitals in their own local markets.

[8] Includes all of Cupertino and Sunnyvale within the Sphere of Influence, which is inconsistent with the physical description of the area, but which corresponds with recommendations made in the 2007 Service Review and definitions generally used by the El Camino Hospital District.

Table 5.11
El Camino Hospital District Inpatient Catchment[9]
Sorted by Zip Code – Calendar Year 2010

Catchment Areas	El Camino - Mt. View Case Volume	% of ECH-MV	Cumulative %	Market Share
Within the District				
94040 Mountain View	960	6%		44%
94043 Mountain View	742	4%		35%
94024 Los Altos	693	4%		50%
94022 Los Altos & Hills	519	3%		37%
94085 Sunnyvale	488	3%		34%
94041 Mountain View	361	2%		40%
94042 Mountain View	10	0%		26%
94039 Mountain View	8	0%		44%
94023 Los Altos	6	0%		14%
94035 Moffett Field	2	0%		15%
Within the District	**3,789**	**22%**	**22%**	**40%**
Partially Outside the District but Within the Sphere of Influence				
94087 Sunnyvale	1,548	9%		43%
94086 Sunnyvale	1,371	8%		39%
94089 Sunnyvale	605	4%		38%
94088 Sunnyvale	18	0%		36%
Partially Outside the District but Within the Sphere of Influence		**21%**	**43%**	**41%**
Outside the District but Within the Sphere of Influence				
95014 Cupertino	1,189	7%		38%
95015 Cupertino	10	0%		20%
Outside the District but Within the Sphere of Influence	**1,199**	**7%**	**50%**	**38%**
Rest of Santa Clara county	6,339	37%	88%	4%
Rest of California	1,903	11%	99%	-
Out of state or unknown	176	1%	100%	-
Total	**16,948**			

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

Inpatient catchment for all inpatient services provided by El Camino Hospital Mountain View is visually displayed in the Figure 5.4 map, shown below.

[9] District geography and El Camino Hospital (Mtn View campus) IP discharges excluding normal newborns for CY2010 as provided by ECH, Dec 23, 2011.

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insert 3542 as sub-total here.

Figure 5.4
Distribution and Saturation of Inpatient Services
El Camino Hospital Mountain View by Zip Code

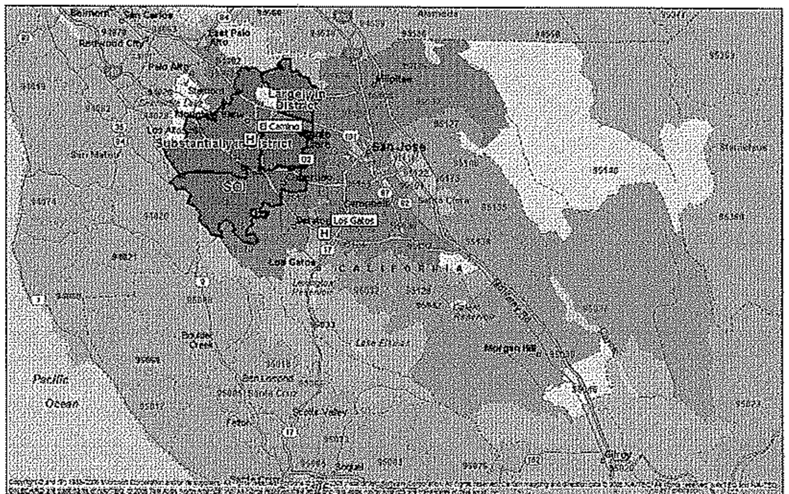

Table 5.12 on the next page provides similar data for emergency room visits. As shown, the Mountain View campus of El Camino Hospital draws about 54 percent of its Emergency Department volume from zip codes that are within the SOI. Expanding the SOI to include all of Cupertino and Sunnyvale yields a catchment of 60 percent of Emergency Department volume from these areas. Another 29 percent originates from the rest of Santa Clara County, and the remaining 11 percent originates from other counties and beyond.

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Table 5.12
El Camino Hospital District Emergency Department Catchment[10]
Sorted by Zip Code – Calendar Year 2010

	El Camino - Mt. View		
Catchment Areas	Visits	% of ECH-MV	Cumulative %
Within the District			
94040 Mountain View	3,426	8%	
94043 Mountain View	2,905	7%	
94024 Los Altos	1,844	4%	
94085 Sunnyvale	1,815	4%	
94041 Mountain View	1,366	3%	
94022 Los Altos & Hills	1,270	3%	
94042 Mountain View	43	0%	
94039 Mountain View	30	0%	
94023 Los Altos	15	0%	
94035 Moffett Field	12	0%	
Within the District	12,726	30%	30%
Partially Outside the District but Within the Sphere of Influence			
94086 Sunnyvale	4,367	10%	
94087 Sunnyvale	3,752	9%	
94089 Sunnyvale	1,705	4%	
94088 Sunnyvale	36	0%	
Partially Outside the District but Within the Sphere of Influence	9,860	23%	54%
Outside the District but Within the Sphere of Influence			
95014 Cupertino	2,892	7%	
94015 Cupertino	38	0%	
Outside the District but Within the Sphere of Influence	2,930	7%	60%
Rest of Santa Clara County	12,005	29%	89%
Rest of California	4,655	11%	100%
Out of state or unknown	-	-	-
Total	42,176		

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

Market Share and Patient Flow

The District residents have a high preference for El Camino Hospital (Mountain View campus), with a greater than 40 percent market share from each of the catchment areas within the District and the SOI. Patients in these catchment areas seek about 90% of their inpatient care from within the County, predominantly from El Camino, Stanford, and the two Kaiser facilities. A

[10] District geography and El Camino Hospital (Mtn View campus) ER visits for CY2010 as provided by ECH, Dec 23, 2011.

what year? The supplemental zip-code data provided by N. Borgstrom demonstrates that no in-migration occurred.

clear preference for Stanford over Kaiser is apparent in the primary District zip codes, while the zip codes that are partially or wholly outside of the district, but within the SOI, prefer Kaiser over Stanford, as shown in the table, below.

Table 5.13
El Camino Hospital District Market Share
Sorted by Zip Code – Calendar Year 2010

2010 - All DRG	Volume		Market Share	
By Hospital System	District	SOI	District	SOI
El Camino (Mtn View)	4,396	5,760	41%	42%
El Camino (Los Gatos)	-	1	0%	0%
Kaiser (Peninsula/East Bay)	1,778	3,188	16%	23%
Stanford / LCPH	2,661	1,539	25%	11%
Santa Clara Valley MC	782	1,259	7%	9%
Sequoia (CHW)	255	147	2%	1%
Good Samaritan	175	618	2%	5%
O'Connor	135	422	1%	3%
UCSF	86	85	1%	1%
Sutter (CPMC, Mills-Peninsula)	97	73	1%	1%
Other Santa Clara/San Mateo/ So. Alameda County	183	251	2%	2%
Other Outmigration	285	334	3%	2%

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

While El Camino has lost some market share from the Sphere of Influence zip codes over the last two years (to Kaiser and Stanford), overall its market position has remained stable.

Patient Flow from Los Gatos

The El Camino Hospital in Mountain View receives some "in-migration" of inpatient volume from the Los Gatos area (defined here as the top 12 zip codes with highest inpatient volume reported from the Los Gatos Hospital in 2008). This in-migration volume totaled 4,124 cases in FY 2010, or about 10.5 percent of the area's total cases in that year. This resulted from a 78 percent increase in volume over 2008[11], and a 4.8 percent increase in market share from the Los Gatos area.

Part of this increase is likely due to the reduction in capacity during the change in ownership between 2008-2009, with temporary closure of the Los Gatos facility and the corresponding net decrease in available beds within that area of the County. Overall the El Camino Hospital system of both campuses had a net loss of 0.7 percent of the market share, comprised of a 4.8 percent gain at the Mountain View campus and a 5.5 percent loss at Los Gatos campus.

[11] Prior to the acquisition of Los Gatos Hospital by El Camino Hospital

Does not take into account 99 beds that are not available for use.

Table should be updated to reflect supplemental zip-code data provided by N. Borgstrom

Table 5.14
Market Share Impact On Area Hospitals from El Camino Hospital Los Gatos Closure – 2008 to 2010

Hospital System	Volume	Market Share	Market Share Change 2008-2010
Good Samaritan	10,444	26.6%	0.2%
Kaiser (Peninsula/East Bay)	9,916	25.2%	0.4%
Santa Clara Valley MC	5,713	14.5%	-0.1%
El Camino (Mt. View)	4,124	10.5%	4.8%
O'Connor	3,998	10.2%	-0.3%
Stanford/LCPH	2,248	5.7%	0.3%
Sequoia (CHW)	269	0.7%	0.0%
El Camino (Los Gatos)	28	0.1%	-5.5%
UCSF	221	0.6%	0.0%
Sutter (CPMC, Mills-Peninsula)	150	0.4%	-0.1%
Other Santa Clara/San Mateo/ So. Alameda County	1,121	2.9%	-0.1%
Other Outmigration	1,086	2.8%	0.4%
Total	39,318	100%	

Note: "Los Gatos Market" includes the top 12 zip codes with the highest inpatient volume in the Los Gatos hospital catchment area, comprising 56 percent of total volume at Los Gatos Hospital in 2008.

Source: OSHPD Patient Origin files from 2008 and 2010.

Findings and Statements of Determinations

Service reviews are intended to serve as a tool to help LAFCo, the public and other agencies better understand the public service structure and evaluate options for the provision of efficient and effective public services. The Service Review conducted of the El Camino Hospital District revealed the following information for consideration by the Santa Clara County LAFCo Board.

- An emphasis in the law on populations or communities "served" by a healthcare district, rather than populations residing within district boundaries, have generally been interpreted to allow health care districts to extend their influence well beyond jurisdictional territory.

Excess Capacity Even with Projected Population Growth

- The County of Santa Clara has excess capacity for many services, estimated to be over 470 Medical/Surgical, 80 ICU/CCU, 188 Obstetrics and 72 NICU beds, based on 2010 discharge and licensure data at a target utilization rate of 85 percent.

- El Camino Hospital has a general acute care inpatient utilization rate of 46.3 percent. Although utilization varies by service, the ECH has substantial excess capacity in the Hospital's Medical/Surgical and Neonatal ICU units.

delete "controls" and replace with "captures"

- On a Countywide basis, El Camino Hospital provides about 9.4 percent of total inpatient services. While ECH has 11.8 percent of all licensed beds in the County, it has 15.2 percent of excess capacity.
- Given the population profile of Santa Clara County and hospital utilization rates by age cohort, inpatient hospital demand is expected to increase by between 9.0 percent and 13.0 percent over the next five to seven years. For El Camino Hospital, this growth is expected to increase by between 5.8 percent and 8.3 percent over the same period.
- With the exception of ICU beds, it is unlikely that growth in local demand will lead to capacity concerns at the Mountain View hospital. Excess capacity is likely to remain in most services, since the Hospital is considering a project to relocate physician offices in the Women's Hospital to make approximately 40,000 square feet available for inpatient use.

Large Proportion of Services Provided to Person Residing Outside of the SOI

- Unlike water or sewer districts, which are restricted to providing services at permanent physical addresses, Healthcare District law does not restrict services to a specific territory and, instead, allows health care districts to serve individuals who reside outside of the district boundaries and in other areas. With the exception of the Los Gatos Hospital campus and two dialysis centers located in San Jose, all El Camino Hospital District facilities are located within jurisdictional boundaries.
- Approximately 43 percent of inpatient services provided by El Camino Hospital are for persons who reside within the Sphere of Influence. Approximately 50 percent are for persons who reside within the expanded SOI that includes all zip code territory within Sunnyvale and Cupertino. Another 38 percent originates from the rest of the County and an additional 12 percent originates from locations outside of the County.
- Approximately 54 percent of El Camino Hospital emergency department services are provided to persons who reside within the Sphere of Influence. Approximately 60 percent are for persons who reside within the expanded SOI that includes all zip code territory within Sunnyvale and Cupertino. Another 29 percent of service volume is provided to patients who originate from the rest of the County and an additional 11 percent to those who originate from locations outside of the County.

Market Share Consistent Across District Boundaries and Expanded SOI

- El Camino Hospital Mountain View controls approximately 40% of the market share within the District, the SOI and the expanded SOI that includes all zip code territory within Sunnyvale and Cupertino.
- Patients in these three catchment areas seek about 90% of their inpatient care from within the County, predominantly from El Camino Hospital Mountain View, Stanford, and the two Kaiser facilities.

This is misleading. If no District dollars go to Los Gatos how is District Servicing Los Gatos? Harvey Rose is ignoring corporate structure. Its disagreement with state law and policy is not a basis to ignore the law.

Insert: "within the boundaries" in between "provided" and "to"

Since this is consistent with State law, the second sentence is advocacy without a defined standard.

- The El Camino Hospital in Mountain View receives some "in-migration" of inpatient volume from the Los Gatos area. This in-migration volume totaled 4,124 cases in FY 2010, or about 10.5 percent of the area's total cases in that year; and, resulted from a 4.8 percent increase in market share from the Los Gatos area.

The following findings respond to the specific questions posed by the Santa Clara County LAFCo as part of the Service Review:

1. ***Separate and apart from the review of ECHD's role in relation to the Los Gatos Hospital campus, does the ECHD provide any services outside of its boundaries? What is the District's role in the various El Camino Hospital dialysis centers throughout the County?***

   Although the Corporation is a separate legal entity, as discussed in Section 4, the ECHD is the "sole member" of the El Camino Hospital Corporation. As structured, the elected District Board members sit as the only voting members of the Corporation Board. Therefore, any activities of the Corporation are, by extension, activities of the District.

   The acquisition and opening of the Los Gatos Hospital extends the range of District services beyond its current boundaries and sphere of influence. In addition, even when viewing the activities of El Camino Hospital – Mountain View in isolation, it is clear that a major portion of services are provided to persons who reside outside of the District boundaries and the sphere of influence (see Statement 2, below).

   Providing dialysis services outside of the physical boundaries of the District is consistent with State law [Health and Safety Code § 32121(j)] and with the broader mission of the District and Hospital. However, the location of these centers in East San Jose (2230 Tully Road) and Central San Jose (999 West Taylor Street) is.

2. ***Do the ECHD's current boundaries reflect the population it serves?***

   No. As demonstrated in this report, only 43 percent of the inpatient services provided to residents of zip code areas that are wholly or partially contained within District boundaries. When considering zip code areas that are outside of the District but within the SOI, the proportion of inpatient services received by residents increases to 50 percent. Therefore, approximately half of the services provided by El Camino Hospital – Mountain View are provided to residents of neither the District nor the District's SOI. Although a greater proportion of emergency services are provided to residents of the District and SOI, approximately 40 percent of such services are provided to non-residents that reside in areas throughout the County, State and beyond.

3. ***If the ECHD is providing services outside of its boundaries, should its boundaries be extended to include its service area? If so, how would the affected agencies be impacted by such expansion?***

   No. As demonstrated in the report, the El Camino Hospital Mountain View facility consistently has a market share of approximately 40 percent of all inpatient services within the District and sphere of influence. Beyond the SOI, the Hospital's market share drops to only four percent in the rest of the County.

In addition, as demonstrated in Section 4, the District, Corporation and five affiliated non-profit entities have been able to accumulate approximately $440 million in Unrestricted Net Assets as of June 30, 2011. In part, this accumulation of Unrestricted Net Assets and the Corporation's ability to acquire the Los Gatos Hospital have occurred as a result of the significant property tax contributions being made by residents of the current District. By expanding the District boundaries to include the SOI, the property tax base and resulting revenues would increase, adding to the Corporation's ability to either expand deeper into the community or accumulate additional Unrestricted Net Assets. There would be no clear benefit to residents of an expanded District if this were to occur.

4. ***What services is the ECHD currently providing? Is El Camino Hospital District currently providing the services for which it was created? Is there a change in ECHD's mission since its creation?***

The ECHD provides services to its residents through the El Camino Hospital Corporation and its affiliates through an array of contracts with the Corporation that include a ground lease for the Mountain View Hospital, and the transfer and sale of assets to the Corporation in exchange for providing services to the ECHD community. As discussed in Section 4 and restated above, although the Corporation is a separate legal entity, the ECHD is the "sole member" of the El Camino Hospital Corporation. As structured, the elected District Board members sit as the only voting members of the Corporation Board. Therefore, any activities of the Corporation are, by extension, activities of the District.

Given this interpretation of the governance and financial relationship between the District and the Corporation, the decision of the Corporation to acquire Los Gatos Hospital and expand services (including operation of dialysis centers) well beyond the established boundaries of the District represents a significant departure from the original intent of the voters when forming the District in 1956. Further, expanding the Corporation reach in this manner is inconsistent with the intent of California Health and Safety Code § 32121(j), which allows healthcare districts, "to establish, maintain, and operate, or provide assistance in the operation of one or more health facilities or health services…at any location within or without the district *for the benefit of the district and the people served by the district*." Given the geographical distance of the Los Gatos Hospital to the District, the extent to which the acquisition meets the voters' original intent or the purpose of the State law is questionable.

This presumes hospital would have been rebuilt without GO Bond or Capital Improvements made without District funding. Also, no mention is made of benefit of increased community benefit programs in an expanded SOI. No finding of duplication of services, so presumably residents would be benefited.

"As structured, the elected District Board members sit as [delete "the only"] voting members…"

As confirmed by this report, the acquisition of Los Gatos by the Corporation complied with State law and demonstrates that no District dollars went to the transaction. The conclusion in this sentence is based on the false premise that the original intent applies, rather than the intent of the current enabling legislation, that has been amended many times.

delete "on a cash basis" – GASB requires the District to account on an accrual basis.

The following Statements of Determination respond to the requirements of California Government Code Section 56430

1. ***Growth and population projections for the affected area.***

   The District and SOI are expected to experience a five-year population growth rate of 2.8 percent compared with a Countywide population growth rate of approximately 5.0 percent. Also, because of the differences in the populations by age cohort, the District and SOI will experience a lower 5.8 percent inpatient volume increase compared with a 9.0 percent inpatient volume increase for the County overall.

2. ***Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.***

   With the exception of ICU beds, it is unlikely that growth in local demand will lead to capacity concerns at the Mountain View hospital in the next five years. In addition, current facility plans under consideration for the Mountain View campus include the possibility of relocating physician offices in the Women's Hospital to make approximately 40,000 square feet available for inpatient use in 2013-2014.

3. ***Financial ability of agency to provide services.***

   The District, Corporation and five affiliated non-profit entities collectively held Unrestricted Net Assets of approximately $440 million as of June 30, 2011, which was 76.3% of annual operating expenses in that year. Of this amount, $408 million was reportedly held in cash and investments. Other financial indicators suggest that the combined organization is in a strong position compared with Standard and Poors (S&P) A+ rated hospitals: (a) the Hospital operating margin is 9.4% vs. 3.8% for the S&P group; (b) the Hospital profit margin is 8.3% compared with 6.0% for the S&P group; and, (c) the Hospital debt to capitalization ratio is 17.0% compared with 30.9% for the S&P group (i.e., for this indicator, a lower percentage suggests better performance). Therefore, the District's financial ability to provide services is strong.

4. ***Status of, and opportunities for, shared facilities.***

   No opportunities for shared facilities were identified during the service review.

5. ***Accountability for community service needs, including governmental structure and operational deficiencies.***

   To improve accountability, the District and the Corporation should establish enhanced budgetary reporting and controls on a cash basis in order to better reflect the use of District resources. This should include detailed reporting of transfers between entities as well as debt service requirements. In addition, budgetary and financial information should be reported on a component unit level (i.e., separate budgets and financial reports for the District, Corporation and each of the five non-profit entities). These budgets delete "at public hearings" – the budgets are already reviewed, discussed and adopted at public hearings; it is OK to suggest we should do it in more detail, but adding "public hearings" suggests we are not doing it in public.

change "disguising" to "blurring" – "disguising" suggests intent.

should provide ~~character-level~~ detail and be reviewed, discussed and adopted by the respective boards at public hearings.

The governance structure of the District, the Corporation and the five affiliated non-profit entities blurs the distinctions between the organizations. As the "sole member" of the Corporation, the District is able to directly impose its will, financial benefit and financial burden on the Corporation, which link the boards together and create fiscal dependency. In addition, the Corporation serves as the manager and administrator, not only for the Hospital as a nonprofit public benefit corporation, but also for the District, the Foundation, and the additional affiliated entities. Accordingly, all financial transactions and activities occur through the accounts and records of the Hospital, further disguising distinctions between the entities. The District should consider changes that would clearly distinguish between the entities for governance and management purposes. This is discussed more fully in Section 6 of this report. In addition, the District should enhance processes for monitoring expenditures for capital improvements and community benefits, through improved budgeting and more transparent financial reporting.

6. ***Any other matter related to effective or efficient service delivery, as required by commission policy.***

   None identified as part of the service review.

The following Statements of Determination respond to the requirements of California Government Code Section 56425.

1. ***The present and planned land uses in the area, including agricultural and open space lands.***

   The ECHD has well-developed suburban land use designations without plans for significant changes that would affect the purpose and mission of the District.

2. ***The present and probable need for public facilities and services in the area.***

   The El Camino Hospital Mountain View campus provides a vital healthcare service in the community. A review of population projections for the District and the County, as well as analysis and capacity by major service, indicates that additional healthcare capacity is not required at this time. Overall, the County is using only 58.9 percent of its licensed beds and El Camino Hospital Mountain View is using only 47.1 percent of its licensed beds, suggesting sufficient medical facility capacity in the District and County.

3. ***The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.***

   See Statement Number 2.

4. ***The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.***

   The commission did not identify any social or economic communities of interest in the area and none were identified as part of the Service Review.

5. ***The nature, location, and extent of any functions or classes of services provided by the existing district.***

   Although the District does not directly operate El Camino Hospital, it leases the land, transferred and sold assets, and entered into various agreements with the El Camino Hospital Corporation to operate a hospital on property that it owns in Mountain View. In addition, the District has contributed approximately $110 million to the Corporation in the past five years to pay for debt service related to the rebuilding of the Mountain View hospital, other capital improvements and community benefits.

   El Camino Hospital is a full service acute care hospital located on a 41-acre campus in Mountain View, California. The campus in Mountain View includes the main hospital, the Women's Hospital, the El Camino Surgery Center, the Breast Health Center, the Oak Dialysis Center, the CyberKnife Center, the Cancer Center in the Melchor Pavilion, the Fogarty Institute, the Taft Center for Clinical Research, and the Genomic Medicine Institute. El Camino Hospital Corporation (ECHC) also owns the El Camino Surgery Center, LLC, and Silicon Valley Medical Development, LLC, and has 50 percent ownership of Pathways HomeCare and Hospice.

   El Camino Hospital is licensed for 374 General Acute Care beds and 25 Psychiatric beds, for a total of 399 beds, based on data available from the California Office of Statewide Health Planning and Development (OSHPD). The table on the next page displays the number of licensed beds and patient days for the ECH Mountain View hospital, and calculates the average daily census and percent utilization by unit.

See prior comment regarding 99 beds that are not available for use. Also add "on its Mountain View campus" after "399 beds" – the last sentence refers to a table on the next page, but there is no table there.

The Fogarty Institute is a lessee. Other lessees are not identified.

6. Governance and Reorganization Alternatives

As discussed in the Introduction to this report, Santa Clara County LAFCo posed two overriding questions to be answered as part of this service review and audit, as follows:

1. Is the El Camino Hospital District providing services outside of its boundaries, possibly in violation of State law?

2. Should the District continue to exist and/or continue to receive public funds or could another entity provide the District's services more efficiently?

Providing Services Outside of the District Boundaries

As discussed in Section 5 of this report, only about 50 percent of the inpatient services provided by El Camino Hospital Mountain View are performed for persons residing within the District and the SOI. The balance of services are provided to persons who reside outside of the SOI. To some extent, this is anticipated in State law, which specifically allows hospital and healthcare districts to perform services outside of established jurisdictional boundaries. However, State law is also silent on the degree to which extra-territorial services are permitted or considered to be reasonable. While the reach of the District services provided through El Camino Hospital Mountain View do not appear to be in violation of the law, it is clear that services are provided in areas that are far outside of the boundaries recognized by Santa Clara County LAFCo.

The matter is further complicated by the El Camino Hospital Corporation's acquisition and opening of the El Camino Hospital Los Gatos campus in the last few years. As discussed extensively in Section 4 of this report, although the Corporation has been organized as a separate legal entity, its governance structure, financial relationship to the District and legal stature as a quasi-public entity conclusively show that the District and the Corporation function as one and the same entity. While the opening of the Los Gatos Hospital may make business sense for the Corporation, that action redefines the mission of the Corporation – and, indirectly, the District – in a manner that is wholly inconsistent with the intended purpose of the District.

Although the Service Review did not find that the El Camino Hospital District is providing services outside of the District in violation of State law, it is clear that the reach of the organization has gone well beyond the territorial boundaries and established sphere of influence (SOI) of the jurisdiction.

Continued Existence and Receipt of Taxpayer Funds

As discussed in Section 4, the combined financial statements for the District, the Corporation and other affiliated organization demonstrate that the combined group of entities is financially strong. As of June 30, 2011, the financial statements indicated that these entities held combined unrestricted net assets of over $440 million, which included $408 million in cash. These unrestricted net assets were equivalent to more than 76 percent of the combined annual operating expenses of the organization, which amounted to $577 million in that year.

This chapter blurs distinction between audit and service review.

Delete rest of sentence after "boundaries", not in RFP.

Delete: To some extent

Delete: "do not appear to be"
Insert: "are not"

Delete: "in areas that are far"
Insert: "to person residing" What services is the report referring to, the dialysis clinics that have existed for decades?

This conclusion is unsupported given District dollars do not go to Los Gatos.

Delete text - "To some extent" this is completely anticipated by state law.

Delete text - "far"

Delete text - "Although"

Untenable to exclude CB programs for those that travel to District. It is unclear what standard, if any, Harvey Rose suggests should apply to proper CB recipients. Is there an acceptable ratio? Or do 100% of CB recipients need to be residents? On what basis has Harvey Rose developed this standard?

Notably, the group of entities experienced these significant unrestricted net assets and cash balances after receiving surplus cash infusions from the District of $52.5 million over the previous five years and spending $53.7 million on the purchase of the Los Gatos Hospital. While the accounting records do not show that any District funds were directly used for the purchase of Los Gatos Hospital, it is clear that asset and cash transfers from the District, as well as access to low cost borrowing through the District and as a non-profit entity, have contributed substantially to the financial success of the organization.

In addition, the combined organization does not distinguish itself by the amount of community benefits that it returns as a result of taxpayer contributions. Certainly, El Camino Hospital Mountain View provides a vital service to the region, providing approximately 9.4 percent of all inpatient services and controlling 15.8 percent of all excess inpatient service capacity within the County. However, the community benefits reported by the District and Corporation merely falls within the range of contributions reported by other California healthcare districts, even though the District receives the second highest apportionment of property taxes in the State. Of the $54.8 million in total community benefit reported by El Camino Hospital in FY 2010-11, the District contributed only $5.1 million. The balance of property taxes received by the District were used to make principal and interest payments on debt and contribute toward capital improvements at the Mountain View campus. In the last five years, the District spent $110.2 million on El Camino Hospital activities, of which only $21.2 million (or 19.2%) was spent on community benefit activities.

Further, other indicators of community benefit – such as the number of inpatient days provided to Medi-Cal patients – show that El Camino Hospital District does not distinguish itself by providing high levels of low income residents either. When compared with the eight other hospitals in the County that provide general medical services, El Camino Hospital Mountain View provides the third lowest number of days of service to this population, providing fewer Medi-Cal days of service than all but the two Kaiser Foundation hospitals in the County.

As discussed in Section 3, the original intent for the creation of healthcare districts in California was "to give rural, low income areas without ready access to hospital facilities a source of tax dollars that could be used to construct and operate community hospitals and health care institutions, and, in medically underserved areas, to recruit physicians and support their practices."[1] Based on the organization's status in the Santa Clara County healthcare community, its financial success and level of community benefit contributed to District residents, it is clear that the original intent of the law is no longer applicable to the El Camino Hospital District. Accordingly, the continued contribution of taxpayer resources to this function are no longer justified or required. Alternatives to be considered by the Santa Clara County LAFCo are provided in this section.

[1] "California's Health Care Districts," prepared for the California Healthcare Foundation by Margaret Taylor, April 2006.

Repetition of incorrect or inaccurate data.

This paragraph is based on undefined standard of how a district must distinguish itself to avoid dissolution or governance mandates.

As noted above, this intent changed before ECH was created

The District was never rural, and this discussion is based on false premise that original intent applies, rather than the intent of the current enabling legislation, that has been amended many times. Only the state legislature or voters should determine if taxpayer contribution to health care districts is "justified or required."

Should be clearer that 100% of unrestricted funds went to CB. This is written to imply District should be doing more towards CB, but that would require no longer following Gann limit. If LAFCO recommends that the Gann limit should not be followed it should do so explicitly in this report.

Delete text - "However"

Capitalize word "The"

Delete text - "even though the District receives the second highest apportionment of property taxes in the State." Please see comments related to errors and omissions in Figure 3.1.

Delete text - "merely" This is not neutral language.

Delete text - "only" , it is 100% of unrestricted funds.

Delete text - "only", it is 100% of unrestricted funds.

Analysis of Governance Structure Options for the El Camino Hospital District

The Cortese Knox Hertzberg (CKH) Act grants a LAFCo the right and responsibility to review, and approve or deny a district's official boundary and its Sphere of Influence (SOI). Boundary changes may be initiated by petition of residents / registered voters or by resolution of local affected agencies. LAFCO may also initiate some boundary changes under certain circumstances.

There are six governance structure options for the ECHD:

1. Maintain the District's boundaries and take measures to improve governance, transparency and accountability;
2. Modify the district's boundaries and/or SOI;
3. Consolidate the district with another special district;
4. Merge the district with a city;
5. Create a subsidiary district, where a city acts as the ex-officio board of the district; or
6. Dissolve the district, naming a successor agency for the purpose of either "winding up" the affairs of the district or continuing the services of the district.

Maintain District Boundaries/Improve Governance, Transparency and Accountability

El Camino Hospital is a well-regarded and successful organization that provides important services to District residents and other persons within the County of Santa Clara. Nonetheless, throughout this report, opportunities that would improve the governance, transparency and accountability of the District have been identified and questions have been raised regarding the degree of community benefits being provided to District residents in exchange for substantial property tax dollars that have been contributed to ECHD over the years.

Under this alternative, El Camino Hospital District would continue operations and receive its apportionment of property taxes for general use and debt service. There would be no change in District boundaries or sphere of influence. However, to avoid future difficulties and questions regarding the appropriateness of future property tax contributions by the citizens of the District, Santa Clara County LAFCo should encourage the El Camino Hospital District Board of Directors to consider the following.

1. Acting as the El Camino Hospital Corporation Board of Directors, the Board should remove the District as the "sole member" of the Corporation and change the membership of the Corporation Board to include majority representation by individuals other than members of the ECHD Board of Directors. This action would result in full control of the Corporation by its Board of Directors and remove the District from its current role in corporate governance. Further, by changing the composition of the Corporation Board, the separation and independence of the two Board's would be complete and the actions of the separate boards would be distinct, allowing for greater accountability and transparency.

The District intends to work on increasing transparency and accountability. Given that report found no violation of state law or identified any funds that were spent without District Board approval, misappropriated, or that could not be specifically accounted for, mandates regarding governance structure under threat of dissolution are unwarranted. The recommendations should be just that, recommendations.

Vague as to connection with service review.

Returns to prior structure that triggered lawsuit for District to regain control of Hospital Corporation. Undermines transparency and public accountability because Corporation would no longer be subject to Brown Act or required to make financial audits publicly available. This change would also require confirmation of voters of District.

2. The El Camino Hospital District should limit its contributions to the El Camino Hospital Corporation to payments for principal and interest on debt incurred by the District for the El Camino Hospital Mountain View Rebuild (i.e., a balance of $143.8 million in General Obligation Bonds, discussed in Section 4). In addition, the District should cease all contributions to the El Camino Hospital Corporation to support the Hospital capital improvement program or be used as a general revenue source, and divert these funds to community benefit programs that more directly benefit the residents of the District. Had this been the practice over the past five years, additional community benefit dollars amounting to approximately $73.7 million would have been available to directly benefit District residents. Should contributions exceed the 50% threshold pursuant to 32121 (p)(1) vote is required.

3. Cease all automatic contributions to the El Camino Hospital Corporation or its affiliates to support the Corporation's community benefit program and divert these funds to other programs that more directly benefit the residents of the District. Under this approach, the District Board should consider establishing a Community Benefit Trust Fund for the purpose of awarding District funded community benefit grants to public and private non-profit organizations that would provide healthcare related services to District residents. While the Corporation and its affiliates should not be barred from receiving community benefit grants from the District, the organizations should be required to compete for dollars along with other providers that might offer services.

4. Implement changes to the budget and financial reporting structure of the District, to provide clear and distinct segregation of budget priorities and reporting of financial activities. The budget process should be restructured to enhance transparency and public accountability, including clear presentation of financial policies, as well as projected and actual revenues and expenditures by purpose and program. The budget should report on the purpose for specific line items financed by the District, including appropriations that support Mountain View hospital debt service, capital improvements (for example, the district should adopt a capital improvement plan), staffing and operations (including compensation paid to District Board members and/or employees and consultants, if any), and community benefit programs by grant category and recipient. In addition, the District Board should routinely appropriate all property taxes and non-operating revenues each fiscal year to prevent accumulation of resources, except in designated reserves or trust funds. A strengthened budget monitoring and reporting system should be established to ensure funds, such as community benefit grants, are being spent in accordance with Board policy.

5. Evaluate current and otherwise necessary professional services agreements with firms or individuals (including the corporation) used by the district for services, to ensure that the District receives the administrative and legal support necessary to conduct business. Adopt a code of ethics and conflict of interest policy to ensure that the District avoids circumstances of perceived or actual conflicts of interest.

Adopting these types of reforms would result in the following advantages and disadvantages:

Not a contribution.

Cannot be diverted. Ignores Gann limit.

District is exempt.

Already done.

Already in place

Current program does this and is working.

Advantages	*Disadvantages*
• Medical services in the District and SOI would continue uninterrupted.	
• Taxpayer contributions to the Corporation would continue, ensuring that El Camino Hospital would sustain resources necessary to provide community benefit funds within the community.	
• The governance structures of the District and the Corporation would be strengthened and made distinct, and the interests of District residents would be less likely to be compromised by Corporate interests.	
• District residents would likely receive increased levels of community benefits from providers other than the Corporation and its affiliates. Establishing a grant award process would ensure that community benefit dollars remain focused within the District.	
• Financial and budgetary transparency and public accountability would be enhanced. Systems would be established to ensure that the residents of the District will be able to monitor and influence the use of taxpayer funds in their community.	
• Circumstances of perceived or actual conflicts of interest would be lessened.	

Gives up transparency and public control of the Hospital Corporation.

End of funding of current community benefit programs harming those currently relying on those services, increased overhead costs reducing dollars available for CB.

Eliminates current controls to ensure the hospital serves the District.

Can already be accomplished under current governance structure.

Modify Boundary and/or Sphere of Influence

If requested, a LAFCo may modify a district's boundaries by either reducing the amount of assigned territory through detachment or increasing the amount of territory through annexation. When district territory is detached, taxpayers within the removed territory are no longer required to pay taxes to the district. When territory is annexed, the CKH Act, Section 57330 states that the annexed territory "shall be subject to levying or fixing and collection of any previously authorized taxes, benefit assessments, fees or charges of the ... district."

State law requires LAFCo to define and maintain a "sphere of influence" (SOI) for every local government agency within a county. California Government Code Section 56076 defines sphere of influence to mean "a plan for the probable physical boundaries and service area of a local agency, as determined by the [local agency formation] commission." Santa Clara County LAFCo defines "sphere of influence" as "the physical boundary and service area that a local governmental agency is expected to serve."[2] By expanding a SOI there is no financial impact on a district or requirement that taxpayers within the expanded territory pay additional taxes. For

[2] Santa Clara County LAFCo website, "Powers of LAFCO"

This ignores the report's conclusion in table below that SOI expansion would better reflect the Mountain View Hospital's service reach.

hospital districts, therefore, it appears a SOI expansion merely redefines the extraterritorial reach of the jurisdiction for purposes of understanding the size of the "affected area".

Under this alternative, El Camino Hospital District would continue operations and receive its apportionment of property taxes for debt service, community benefits, capital improvements at the Mountain View campus, and general use. If boundaries were expanded, the District would receive more in property tax but would not necessarily provide a greater level of service to District residents. Accordingly, *there would be no practical benefit from modifying the sphere of influence to better reflect the Hospital's reach.*

Advantages	*Disadvantages*
• The boundaries of the District and the SOI would better reflect the Mountain View Hospital's service reach into surrounding communities.	• The Corporation potentially would have additional resources to locate services outside of the District's SOI, further complicating distinctions between the District and the Corporation.
	• If the boundaries were expanded, the property tax base and resulting contributions to the District would increase, without necessarily providing significantly more in community benefits to District residents.
	• Additional taxpayers, who already have access to Mountain View Hospital services, would have a portion of their base property tax apportioned to the District and would be required to pay an additional levy for debt service, if the boundaries were expanded.

Consolidate with Another District

Consolidation of a district could occur when there is another district that provides the same or similar functions Because there is no other district in the County, consolidation *is not a viable reorganization alternative.*

Merge with a City

Merging a district with a city requires that the boundaries of the district be entirely within the City.[3] Since the El Camino Hospital District boundaries extend significantly beyond the boundaries of any single city within its jurisdiction, merger *is not a viable reorganization alternative.*

[3] Government Code § 57104.

Create a Subsidiary District

To establish a district as a subsidiary of a city, the city must comprise 70% of the land or include 70% of the registered voters of the district.[4] Therefore, establishing the district as a subsidiary of one of the cities within its jurisdictional boundaries *is not a viable reorganization alternative* since the district's boundaries cover several cities.

Dissolve the District

According to Section 56035 of the California Government Code, "Dissolution" means the dissolution, disincorporation, extinguishment, and termination of the existence of a district and the cessation of all its corporate powers . . . or for the purpose of winding up the affairs of the district.

If the El Camino Hospital District were to be dissolved, analysis assumes that the Mountain View hospital would continue to be operated by the Corporation. To accomplish a dissolution, Santa Clara County LAFCO would need to make findings regarding the District in accordance with Government Code Section 56881(b), as follows:

(1) Public service costs . . . are likely to be less than or substantially similar to the costs of alternative means of providing service.

(2) A change of organization or reorganization that is authorized by the commission promotes public access and accountability for community services needs and financial resources.

In addition, Santa Clara County LAFCo would need to identify a successor agency to implement the wind-up of the District, in accordance with Government Code Section 57451.

GC Section 56881(b)(1) Determination – Public Service Cost

During the past five years, $110.2 million in property taxes collected by the El Camino Hospital District and other non-operating revenue (e.g., investment income) have been used very specifically to support El Camino Hospital – Mountain View, as follows:

- Approximately $22.9 million, or 20.7%, has been used to repay debt incurred for the rebuild of the El Camino Hospital Mountain View campus.
- Approximately $21.2 million, or 19.2%, has been used to fund miscellaneous capital improvements at the El Camino Hospital Mountain View campus.
- Approximately $13.7 million, or 12.4%, has been contributed to El Camino Hospital Corporation and its affiliates to support Community Benefit Program, used primarily for community health education, clinical services and clinical support services.

[4] Government Code § 57105.

On what basis is this assumption made?

Replace with - transferred to Hospital to manage District's community benefit program.

These expenditures provided a benefit to the District.

- Approximately $52.5 million, or 47.6%, has been transferred to the El Camino Hospital Corporation as general surplus, contributing to the Corporation's ability to accumulate over $440 million in surplus net assets during this period and acquire Los Gatos Hospital.

Under this scenario, the District would be dissolved, the Corporation would continue to operate the hospital and the successor agency would assume the remaining debt on the General Obligation bonds. Therefore, the public service cost would be "substantially the same" as currently.

Contributions toward community benefits and the transfer of surplus District funds, representing nearly 60 percent of total contributions to the Corporation during the past five years, would clearly represent a decline in hospital income going forward. However, two factors related to these transfers should be recognized:

1. The contributions to community benefits, amounting to 19.2% of the total contributions made by the District, have generally gone toward programs that support the hospital's general mission of providing healthcare services to the broader region. With dissolution, District residents would no longer be paying taxes to support community benefit services that are presently available to residents and non-residents alike.
2. Similarly, a substantial portion of the transfers (47.6%) have been used to support the general operations of the hospital, and have allowed the Corporation to accumulate surplus net assets sufficient to purchase Los Gatos Hospital and expand the Corporation service territory well outside of the District boundaries and Sphere of Influence. Based on the service review, at most, 43 percent of inpatient services and 54 percent of emergency services are provided to District residents. As with community benefits, District residents would no longer be paying taxes to support the general operations of the hospital that are presently available to residents and non-residents alike.

Based on these factors, in accordance with Government Code Section 56881(b)(1), public service costs are likely to be less than or substantially similar to the costs of alternative means of providing service under a dissolution alternative.

GC Section 56881(b)(2) Determination – Promoting Public Access and Accountability

This report has identified several weaknesses in governance, transparency and public accountability due to the present relationship between ECHD and the Corporation. The audit found that, although legally separate entities, there is no functional distinction between District and Corporation governance, management and finances. The audit was unable to draw a clear distinction between Corporation income and District funds that allowed the Corporation to accumulate surplus net assets sufficient to acquire Los Gatos Hospital. Without distinct governance and full transparency, public accountability is weakened. With the dissolution of the District, public access and accountability would no longer be a concern.

The report fails to disclose to the public and LAFCo that this would result in termination of CB program. Also does not address the potential reduction in the size of operations to account for loss of revenue and the potential transfer of the hospital to a large network. The report appears to put no value on the public control of the hospital. Also, a successor agency would not serve the same constituents as the District and may not serve the best interests of the District's residents due to the lack of local control and accountability.

Factually incorrect. Used for hospital replacement project.

No district hospital anywhere can exclusively serve residents. This is a unique standard not based in law or public policy.

Enumerate weaknesses for clarity.

This is a misleading analysis. Taxes would no longer be required to support health care services or CB. No analysis of increased overhead that may be imposed by less efficient successor agency. Ignores transaction costs resulting from successor agency needed to establish programs and staffing to duplicate services already efficiently provided by District.

Not true. Unless successor agency ceases all CB, would still be providing services to non-taxpayers.

Delete dissolution findings. Dissolution not being recommended. Also, this is an arbitrary finding. Could be made for any LAFCO for any agency without consideration of any facts. Ignores the need to "improve" access and accountability. Providing none does not appear to meet this standard and no analysis done related to successor agency.

delete "general surplus" – the amount transferred was clearly identified for the hospital replacement project in the District Board resolutions.

Delete dissolution findings. Dissolution not being recommended.

GC Section 57451 Identifying a Successor Agency for Purposes of Winding Up the District

In the event of dissolution, Government Code Section 57451 would require Santa Clara County LAFCo to identify a successor agency for purposes of winding up the affairs of the District. The city that contains the greater assessed value of all taxable proprerty within the territory of the dissolved district will be the successor agency pursuant to Government Code § 57415.

Implementing Dissolution

Under the Dissolution alternative, Santa Clara County LAFCo would dissolve the District and initiate steps to wind-up the organization. To achieve dissolution, the following issues would need to be resolved:

1. A successor agency would need to be identified.
2. The financial relationship between the District and the Corporation would need to be wound-up, including an equitable settlement for various leases and agreements, and asset and liability disposition.

While dissolution could be justified in accordance with Government Code §56881(b)(1) and §56881(b)(2), these issues should be considered and resolved prior to initiating the dissolution.

Recommendations

Therefore, the Santa Clara County LAFCo Board should direct:

1. The District to implement improvements in governance, transparency and public accountability, consistent with the suggestions made in the subsection of this report entitled, "Maintain District Boundaries/Improve Governance, Transparency and Accountability".
2. If satisfactory improvements cannot be accomplished within 12 to 18 months of acceptance of this report, initiate actions toward dissolution of the El Camino Hospital District.

The rationale for these recommendations is provided, below:

- El Camino Hospital is a successful organization in a thriving healthcare market, and is an important asset to the community.
- Maintaining the status quo without improvements in governance, transparency and public accountability would result in continued concern regarding the need for District revenue contributions that go toward a non-profit public benefit corporation that no longer appears to be in need of taxpayer support.
- Continuation of taxpayer support, without broadening community benefit contributions beyond the Corporation and its affiliates, does not provide assurance that District residents

LAFCO intends to penalize well managed district and require new management structure will unknown impact to health of corporation?

Improper standard. State legislature permits service to those beyond district boundaries.

City cost to admin without experience, much higher.

Return is nearly 100%

Delete dissolution findings. Dissolution not being recommended.

Mandate for District to give up sole voting membership and control of board of Hospital is unwarranted.

Any findings regarding dissolution should be considered only if dissolution proceedings are commenced.

receive an appropriate return on investment. In addition, it creates equity concerns, since approximately 57 percent of all inpatient services and 46 percent of all emergency services are provided to non-District residents, who are not taxed.

- Neither the District nor the Corporation provide remarkable levels of community benefits to District residents, when compared with other healthcare districts in the State and with other hospitals within Santa Clara County.
- Because the District serves as the "sole member" of the Corporation, the acquisition of the Los Gatos Hospital complicates the founding purpose of District and, by extension, the Corporation. Further, the District made indirect monetary contributions to the Corporation that allowed it to use unrestricted net assets for the Los Gatos Hospital purchase. A more distinct separation of the two entities would ensure greater public accountability.
- The separation of the entities and disposition of assets and liabilities would be complex. Therefore, before embarking on a path toward dissolution, Santa Clara County LAFCo should make an effort to encourage the District to implement suggested reforms.

Standards used are arbitrary.

excess capacity of hospital that non-dist residents use ensures hospital can continue to maintain services for residents.

EXHIBIT C

El Camino Hospital District
Information Re Local Health Care Districts
As Requested by Santa Clara County LAFCO
November 4, 2011

A. Laws Applicable to Local Health Care Districts.

According to the Association of California Healthcare Districts, districts originated in 1946 in the aftermath of World War II in response to an acute hospital bed shortage. The Legislature responded by enacting the Local Hospital District Act (now the "Local Health Care District Law," Health & Safety Code §§ 32000, *et seq.*) which authorized communities to form special districts and impose property tax assessments, with voter approval, to help subsidize the construction and operation of hospitals and other health care facilities to meet local needs. District directors are elected officials whose mission is to promote the health and welfare of the residents of the communities serviced by the district. In 1993, the State legislature amended hospital district enabling legislation renaming hospital districts "health care districts" and expanding the definition of health care facilities to reflect changes in medical practice in which health care was increasingly being provided through outpatient services (and clarifying that any reference in any statute to a "hospital district" is deemed to be a reference to a "health care district").

Local health care districts are unique in that, because of the type of services provided, the people served by district facilities are not limited to the physical boundaries of the service area of the district. Unlike special districts that provide services limited by physical infrastructure within the boundaries of that district (e.g., sewer districts that provide wastewater collection and conveyance services based upon connections of wastewater facilities to property owners within such district's service area), district hospitals and other health care facilities provide services to people who elect to use those facilities whether or not those people reside within the service area boundaries of the health care district. This was recognized in the Santa Clara County LAFCO's 2007 Service Review of the El Camino Hospital District, which states that "[i]t should be noted that due to the type of services that are provided by the District, it does provide services to persons living outside of its boundaries." *(quotation from Section 15.1, but also noted in Sections 15.4, 15.8 and 15.9 of 2007 ECHD LAFCO Service Review.)*[1]

Local health care districts are also unique in that the enabling legislation providing for the formation of the districts expressly states that districts are authorized to operate both inside and outside the geographical limits of the districts. For example, Section 32121 of the Local Health

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1 This has also been observed by other LAFCOs. For example, the 2011 Marin Healthcare District SOI Update prepared by the Marin County LAFCO states that the "use of property tax has been largely lost to healthcare districts [due to the passage of Proposition 13 in 1978] and health care district boundaries no longer determine their service area or role in provision of health services." The Marin County LAFCO also states in this SOI Update that "LAFCO's boundary setting authority is generally connected with land use planning, orderly local government relationships and the protection of the environment rather that regional or social services" and that "LAFCO's authority has little connection to healthcare services" other than in connection with the dissolution of health care districts. (*Page 4 of 2011 Marin Healthcare District SOI Update; see link to this SOI Update in Section C.5 below.*)

Care District Law, which enumerates the powers of local health care districts, provides that districts have and may exercise powers including the following:

> (c) To purchase, receive, have take, hold, lease, use, and enjoy property of every kind and description *within and without the limits of the district*, and to control, dispose of, convey and encumber the same and create a leasehold interest in the same of the benefit of the district; and
>
> (j) To establish, maintain, and operate, or provide assistance in the operation of, one or more health facilities or health services, including, but not limited to, outpatient programs, services, and facilities; retirement programs, services, and facilities; chemical dependency programs, services, and facilities; or other health care programs, services, and facilities and activities *at any location within or without the district* for the benefit of the district and the people served by the district. (emphasis added)

The Local Health Care District Law also expressly provides that each local health care district shall have and may exercise the power "[t]o establish, maintain, and carry on its activities through one or more corporations, joint ventures, or partnerships for the benefit of the health care district." (*Health and Safety Code § 32121(o)*) In addition, local health care districts are authorized to "transfer, at fair market value, any part of its assets to one or more nonprofit corporations to operate and maintain the assets" and to "transfer, for the benefit of the communities served by the district, in the absence of adequate consideration, any part of the assets of the district . . . to one or more nonprofit corporations to operate and maintain the assets." (*Health and Safety Code § 32121(p)*) The Legislature's stated reason for allowing such transfers is to permit local health care districts "to remain competitive in the ever changing health care environment." (Stats.1985, ch. 382, § 5, No. 3 Deering's Adv. Legis. Service, p. 953). Sections 32121.7 and 32121.8 of the Local Health Care District Law were enacted specifically in relation to the El Camino Hospital District transfer and ground lease of the El Camino Hospital campus located in Mountain View to El Camino Hospital, a California nonprofit public benefit corporation, pursuant to Health and Safety Code section 32121(p).

In addition, the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, Government Code sections 56000 et seq. (the "Cortese-Knox Act") includes provisions that uniquely apply to local health care districts formed pursuant to the Local Health Care District Law, including Government Code § 56131.5, which provides that:

> Upon the filing of an application for the formation of, annexation to, consolidation of, or dissolution of a local hospital district created pursuant to Division 23 (commencing with Section 32000) of the Health and Safety Code or of an application for a reorganization including any of those changes of organization or the initiation by the commission of any of those changes of organization or any reorganization including any of those changes of organization, the commission shall notify all state agencies that

> have oversight or regulatory responsibility over, or a contractual relationship with, the local hospital district that is the subject of the proposed change of organization or reorganization, of its receipt of the application or the initiation by the commission of the proposed change of organization or reorganization and the proposal, including, but not limited to, the following:
>
> (a) The State Department of Health Services, including, but not limited to, Licensing and Certification and the Medi-Cal Division.
>
> (b) The Office of Statewide Health Planning and Development, including, but not limited to, the Cal-Mortgage Loan Insurance Division.
>
> (c) The California Health Facilities Financing Authority.
>
> (d) The California Medical Assistance Commission.
>
> A state agency shall have 60 days from the date of receipt of notification by the commission to comment on the proposal. The commission shall consider all comments received from any state agency in making its decision.

In addition, the Cortese-Knox Act provides that "Any order in any resolution adopted by the [LAFCO] on or after January 1, 1986, ordering the dissolution of a local hospital district, organized pursuant to Division 23 (commencing with Section 32000) of the Health and Safety Code, is subject to confirmation by the voters." (*Government Code § 51073*) This year, California Assembly Bill No. 912 was passed and becomes effective January 1, 2012. This legislation, which modifies Government Code Section 57077 and streamlines the process for special district dissolutions by eliminating requirements for an election in certain circumstances, did not amend or eliminate Government Code Section 51073, and therefore does not eliminate election requirements related to dissolutions of local health care districts.

B. <u>California SB 1240 (2010) -- Vetoed.</u>

In situations where a local health care district has elected under the Local Health Care District Law to operate its facilities through one or more corporations, joint ventures, or partnerships, or has transferred any part of its assets to one or more nonprofit corporations, there is no requirement under California law that revenues or assets of any such corporation, joint venture or partnership must be used within the boundaries of the district.

That issue was specifically taken up by the California legislature in 2010 in the form of SB 1240 (which was ultimately vetoed by Governor Schwarzenegger). This legislation would have, with certain exceptions, required all revenues generated by a district facility or facilities that are operated by another entity, to be used exclusively for the benefit of a facility within the geographic boundaries of the district and owned by the district. The author of the bill stated that the legislation would have, among other things, prohibited private corporations that lease district hospitals from transferring assets out of the district or crediting operating losses of the district hospital against any purchase price.

The legislative history of SB 1240 provides helpful background information regarding issues being faced by health care districts in California. According to the author of SB 1240, due to rapid changes in health care delivery, technology, and reimbursement, hospitals owned and operated by districts must compete with other health care providers in addition to complying with the state's hospital seismic requirements. The author stated that all of these factors have forced districts to ponder arrangements with nonprofit or for-profit entities in order to keep their districts solvent and maintain a strong presence in their communities. The author noted that, in some cases, district boards had entered into a contract with larger, private health care systems to manage the district hospitals which, in some cases, ended up with assets being transferred out of the district to the benefit of the contracting private health system.

The author cited as examples of the need for this legislation the 2007 agreement between the Eden Township Healthcare District in Alameda County and Sutter Health, under which Sutter obtained a right of first refusal to purchase San Leandro Hospital, and the right to first deduct their operating losses from the purchase price, and the agreement between Marin Healthcare District and Sutter Health, under which the author of the bill stated that $90 to $200 million was transferred from Marin General Hospital to Sutter over a two-year period. (Both of these arrangements are discussed further in Section C below.)

It is worth noting that the April 28, 2010 amendments to SB 1240 carved out exemptions for certain districts, including the El Camino Hospital District. The author of the legislation recognized that, in some cases, a district creates a nonprofit entity to operate its hospital, which it controls, rather than leasing to an outside nonprofit entity. The author noted that an example of this type of arrangement is the relationship between the El Camino Hospital District and the nonprofit entity that operates El Camino Hospital. The author stated that the hospital license in such an instance is held by the operating nonprofit entity and keeping the contractual arrangements in place greatly eases the transition and operations of the hospital. Otherwise, the author noted, all HMO contracts, labor agreements retirement programs, employee contracts, hospital licenses, etc., would have to be cancelled and remade.

Ultimately, as noted above, SB 1240 was vetoed by Governor Schwarzenegger, who stated that the bill would have limited the discretion of a local health care district when entering into a contract with another operating entity – and have the unintended consequence of reducing the incentive for such arrangements when hospitals are struggling to remain open. Governor Schwarzenegger stated that existing law already provided for balanced safeguards, and that the bill would have "disrupt[ed] the balance between local discretion by local elected officials and state policy for assuring access to health care" and therefore declined to sign the bill.

C. <u>California Local Health Care Districts</u>.

As noted in the 2011 Marin Healthcare District SOI Update prepared by the Marin County LAFCO, since the inception of local health care districts, health care costs have increased and reimbursement from insurance and federal and state sources have become more restricted. Changes in costs and funding, advances in medicine and new approaches to medical business administration that have reduced the length of hospital stays has resulted in a shift of emphasis in health care practice to include both hospital operation and diverse outpatient services. District boards have become increasingly concerned about the ability of publicly operated districts to compete with managed care as well as their competitive ability to attract staffing. They have responded in some cases by divesting themselves of hospitals or, more often, by forming partnerships with private hospital and clinic operators. (*Page 5 of Marin Healthcare District SOI Update; see link to this SOI Update in Section C.5 below.*)

According to the Association of California Healthcare Districts, as of 2010, there were 72 operating districts in California, 46 of which operate hospitals within their district boundaries. Eleven of the 72 have either leased or sold their hospital facilities to for-profit or nonprofit health systems but still provide or support health related services to the people served by their district. The remaining 15 districts provide health-related services to those served by their district through a variety of outpatient clinics and programs.

The eleven hospital districts that have leased or sold their hospital facilities to for-profit or nonprofit health systems consist of the El Camino Hospital District and the following other ten (10) hospital districts:

1. Desert Health Care District (Palm Springs). In 1986, the District Board leased hospital operations to an established medical facility provider and for the next decade, District revenues ran Desert Regional Medical Center. In 1997, the District voted to lease DRMC to Tenet Health Systems for 30 years, enabling the hospital to become part of a nationwide healthcare company. Today, Tenet runs the hospital while the District retains ownership of the lease as well other assets including Las Palmas Medical Plaza. Through the system implemented in 1998, much of the impact for District residents today results from programs and grants approved by the District. More than $3 million/year is allocated for projects large and small improving the health of District residents. Desert Regional Medical Center appears to operate a related medical center, known as La Quinta Medical Center in La Quinta, which does not appear to be within the Desert Health Care District's boundaries. Tenant, as a large hospital operator, clearly provides healthcare services beyond the District's boundaries.

Information Sources:
District Web Site: www.dhcd.org/index.php
Desert Regional Medical Center: www.desertregional.com/en-US/Pages/default.aspx
Riverside County LAFCO: www.lafco.org/opencms/index.html
Service Review: None available
District Boundary Map: www.dhcd.org/about/DHCD-boundaries.php

2. Eden Township Healthcare District (Alameda County). The community hospital, known then as the Eden Township Hospital, opened its doors on November 15, 1954. In 1997, the District entered into an agreement with Sutter Health to create a nonprofit corporation to operate the medical center. Since January of 1998, Eden Medical Center has operated as a private, nonprofit medical center and an affiliate of Sutter Health. The nonprofit corporation has an 11 member board of directors which includes the 5 District board members, 5 appointed members who live and work in the community and the CEO of Eden Medical Center. The District shares governance of Eden Medical Center, owns San Leandro Hospital, and oversees its Community Health Fund. Sutter operates San Leandro Hospital as a campus of the Eden Medical Center, leasing the facility from the District. It does not appear that the Medical Center or nonprofit corporation operates facilities outside the District's boundaries; however, Sutter as a large hospital operator clearly provides healthcare services beyond the District's boundaries.

Information Sources:
District Web Site: www.ethd.org/default.aspx
Eden Medical Center: www.edenmedicalcenter.org/
Alameda County LAFCO: www.acgov.org/lafco/
Service Review (2004): www.acgov.org/lafco/msrcycle1.htm#edenhealth
District Boundary Map: (See Service Review Link)

3. Fallbrook Healthcare District (Fallbrook). The District was established in 1950, opening the original 20 bed Fallbrook Hospital in 1960. In 1997, the District Board voted to begin utilizing a private operator to run the hospital, and after contracting with Columbia/HCA for a short period, entered into a long term agreement with Community Health Systems which began leasing the facility for 30 years after a District-wide election to do so was approved by 95% of voters. It does not appear that the District or hospital is providing health services outside the district boundaries; however, Community Health Systems, as a large hospital operator, clearly provides healthcare services outside of the District's boundaries.

Information Sources:
District Web Site: www.fallbrookhealthcaredistrict.org (under construction)
Fallbrook Hospital: www.fallbrookhospital.com/About/Pages/About%20Us.aspx
San Diego County LAFCO web site: www.sdlafco.org/
Service Review (None posted): www.sdlafco.org/Webpages/agency_maps_links.htm
District Boundary Map: www.sdlafco.org/images/11x17maps/HCD_Fallbrook.pdf
Web research: http://home.znet.com/schester/fallbrook/history/hospital.html

4. Grossmont Healthcare District (San Diego County). Founded in 1952, the District built the Grossmont Hospital which opened in 1955, which operated under the control of a publicly elected five member board of directors. In 1991, the District decided to turn over the hospital operations to Sharp HealthCare. The affiliation agreement included the establishment of the Grossmont Hospital Corporation, a nonprofit public benefit corporation, created as a subsidiary of Sharp. A lease between the District and the nonprofit corporation (Grossmont Hospital Corporation) for 30 years was entered into as well. Possession of the hospital and its assets was transferred to the corporation in exchange for payments on district bond indebtedness. In 2001, the lease was modified to give the District 5 seats on the nonprofit corporation board. While it is not clear whether Grossmont Hospital Corporation provides medical services outside the District boundaries, Sharp, as a large hospital operator, clearly does so.

Information Sources:
http://www.grossmonthealthcare.org/
http://www.sharp.com/grossmont
San Diego County LAFCO web site: www.sdlafco.org/
Service Review (None posted): www.sdlafco.org/Webpages/agency_maps_links.htm
District Boundary Map: www.sdlafco.org/Webpages/agency_maps_links.htm

5. Marin Healthcare District (Marin County). Marin Healthcare District built Marin General Hospital (MGH), which opened in 1952. For 25 years the District operated Marin General Hospital. In 1981 the District built MGH's West Wing, adding 78 beds to the hospital. In 1985, the Marin Healthcare District Board entered into a 30-year lease of the Hospital to a

new nonprofit, Marin General Hospital Corporation. MGH Corp. affiliated with California Healthcare Systems soon after forming. Then in 1995, California Healthcare Systems merged with Sutter Health. In 2006, the Marin Healthcare District, Marin General Hospital Corporation, and Sutter Health, entered into a Settlement and Transfer agreement that returned control of Marin General Hospital to the District. On July 1, 2010, control of the hospital returned to the District, which became the sole member of the nonprofit corporation. The District is comprised of five elected members. None of them sit on the MGH Corp. board. Based on a review of the information sources below, it does not appear that Marin Healthcare District or the nonprofit corporation provides medical services outside of the District's boundaries; however, Sutter Health, as a large hospital operator, clearly provides healthcare services outside of the District's boundaries.

Information Sources:
District Web Site: www.marinhealthcare.org
Marin General Hospital: http://www.maringeneral.org/
Marin LAFCO Web Site: http://lafco.marin.org/
Service Review (2011)
http://lafco.marin.org/studies/pdf/MarinHealthcareDistricapprovedmsroi.pdf
District Boundary Map (Included in service review)

6. Mark Twain Health Care District (San Andreas). Established in 1946, the Mark Twain Hospital District opened the Mark Twain Hospital in 1951. In 1990, Mark Twain Hospital District formed a partnership with St. Joseph's Regional Health System (an affiliate Catholic Healthcare West) in Stockton, creating Mark Twain St. Joseph's Healthcare Corporation. Catholic Healthcare West now oversees the management and operations of the hospital and its related services. CHW and SJRHS are both nonprofit public benefit corporations. Direction of the hospital is through the Board of Trustees of the of Mark Twain St. Joseph's Healthcare Corporation, consisting of seven members, three of whom are District board members, 2 members from CHW and two appointed members at large that are residents of Calaveras County. The MTSJ Healthcare Corporation provides healthcare services in a number of locations; based on the information available it is not possible to determine whether the services are all within the District's boundaries.

Information Sources:
District Web Site: [Does Not Exist]
Mark Twain St. Joseph's Hospital Web Site:
www.marktwainhospital.org/Who_We_Are/History/index.htm
Calaveras County LAFCO Web Site:
www.co.calaveras.ca.us/cc/Departments/Administration/LAFCO.aspx
Service Review:
http://ccwgov.co.calaveras.ca.us/Portals/0/Archives/Admin/LAFCO/Studies/Public%20Health%20Care/Public_Health_Care_(Draft)2005.pdf
District Boundary Map: (None located)

7. Mt. Diablo Health Care District (Concord). Formed in 1948, the district financed and built Mt. Diablo Community Hospital. In 1997 the District entered into an agreement with John Muir Medical Center that resulted in the transfer of the District assets to a new entity called

John Muir Health, a nonprofit provider of integrated health services. It appears that the organization provides healthcare services outside of the District's boundaries, operating a medical center, which is part of John Muir Medical Center, in Walnut Creek, among others.

Information Sources:
District Web Site: www.mtdiablohealthcaredistrict.ca.gov
John Muir Health Web Site: www.johnmuirhealth.com
Contra Costa County LAFCO Web Site: www.contracostalafco.org/
Service Review:
www.contracostalafco.org/municipal_service_reviews/final%20healthcare%20services%20MSR%20report/HealthCare%20MSR%20Approved%208-8-07.pdf
District Boundary Map:
www.contracostalafco.org/municipal_service_reviews/final%20healthcare%20services%20MSR%20report/Mt%20Diablo%20Health%20Care%20District%20Boundary%20and%20Coterminous%20SOI%20Map.pdf

8. Peninsula Health Care District (San Mateo). Established in 1947, the District constructed and opened Peninsula Medical Center in 1954. In 1985, the District leased the hospital, including all operations to Mills-Peninsula Health Services, a private nonprofit group that owned and operated Mills Health Center in San Mateo. In 1996 Mills-Peninsula Health Services joined Sutter Health, a nonprofit health system of 27 hospitals in Northern California. After considerable controversy and a lawsuit between the District and MPHS, a modified lease was signed for a new hospital financed with District bond funds in 2007. While Mills-Peninsula Health Services does not appear to provide healthcare services beyond the District's boundaries, Sutter Health, as a large hospital operator, clearly does so.

Information Sources:
District Web Site: www.peninsulahealthcaredistrict.org/index.html
Mills-Peninsula Medical Center: www.mills-peninsula.org/
San Mateo County LAFCO Web Site: www.co.sanmateo.ca.us/portal/site/lafco
Service Review:
www.co.sanmateo.ca.us/portal/site/lafco/menuitem.b02c2c656500bb1874452b31d17332a0/?vgnextoid=ac919889e99a2210VgnVCM1000001937230aRCRD&cpsextcurrchannel=1
District Boundary Map: www.peninsulahealthcaredistrict.org/about_boundaries.html

9. Petaluma Valley Hospital (Petaluma). The District owns Petaluma Valley Hospital and now leases its operations to St. Joseph's Health Care System of Sonoma County. The District remains an active landlord and advocate for the healthcare needs of the community. The operator is a nonprofit entity and ministry of the Sisters of St. Joseph of Orange. St. Joseph's Health Care System of Sonoma County provides health care services in many locations; based on the information available it is not possible to determine whether healthcare services are provided outside the District's boundaries. However, St. Joseph's Heath System is a large hospital operator and so clearly provides healthcare services beyond the District's boundaries.

Information Sources:
District Web Site: http://www.phcd.org/
Petaluma Valley Hospital: www.stjosephhealth.org/Facilities/Petaluma-Valley-Hospital/default.aspx
Sonoma County LAFCO Web Site: www.sonoma-county.org/lafco/
Service Review: (None Posted)
District Boundary Map: (None Located)

10. Sequoia Health Care District (Redwood City). Formed in 1946, the District issued bonds and built Sequoia Hospital which opened in 1950. In 1996, District voters approved transfer of assets to a nonprofit public benefit corporation to be known as Sequoia Health Services in return for a $30 million dollar payment from Catholic HealthCare West (CHW). Sequoia Health Services, consisting of the District and CHW, contracted with CHW to operate and manage the hospital. The original agreement with CHW gave the company the right to manage the hospital for a period of 30 years and the district the right to have 50% of the 10 votes on the hospital governing board, the right to approve changes in key services and the requirement that in the event of sale, all proceeds must be given to the District. It does not appear that Sequoia Health Services provides healthcare services outside of the District's boundaries; however, CHW as a large operator of hospitals clearly does so.

Information Sources:
District Web Site: www.sequoiahealthcaredistrict.com/
Sequoia Hospital Web Site: http://www.sequoiahospital.org/Who_We_Are/index.htm
San Mateo County LAFCO Web Site: www.co.sanmateo.ca.us/portal/site/lafco
Service Review:
www.co.sanmateo.ca.us/portal/site/lafco/menuitem.b02c2c656500bb1874452b31d17332a0/?vgnextoid=ac919889e99a2210VgnVCM1000001937230aRCRD&cpsextcurrchannel=1
District Boundary Map:
www.co.sanmateo.ca.us/vgn/images/portal/cit_609/10670965sequoia-hospital-district.pdf
District Boundary Map: www.sequoiahealthcaredistrict.com/about-us/basic-information/map/

D. Conclusion.

We hope you find the above information helpful and responsive to Chairperson Kniss' request for additional information regarding other local health care districts in California, particularly those that, like the El Camino Hospital District, have leased or sold their hospital facilities to for-profit or nonprofit health systems.

As noted above, local health care districts are unique in that they provide services to persons living outside of their boundaries because of the type of services they provide. The Local Health Care District Act provides that districts have the authority to operate both inside and outside the geographical limits of the districts. There are also provisions of the Cortese-Knox Act that are unique to local health care districts formed pursuant to the Local Health Care District Act, including Government Code section 51073, which specifically requires voter confirmation of any LAFCO resolution ordering dissolution of a local health care district.

Where a local health care district's facilities are operated through a separate for-profit or nonprofit corporation, joint venture or partnership, there is no requirement under California law that revenues or assets of any such entity must be used within the boundaries of the district, and legislation that would have imposed such a requirement in certain circumstances was vetoed in 2010. There are numerous local health care districts in the State that have leased or sold their hospital facilities to for-profit or nonprofit health systems, including to some large hospital operators who provide healthcare services beyond the districts' boundaries.